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COMPANY: **W R GRACE & CO**
CROSS-REFERENCE: FRESENIUS NATIONAL MEDICAL CARE HLDG INC
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1995

Commission file number 1-3720

W. R. GRACE & CO.

Incorporated under the Laws of the I.R.S. Employer Identification No.
State of New York 13-3461988

ONE TOWN CENTER ROAD, BOCA RATON, FLORIDA 33486-1010
407/362-2000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$1 par value	New York Stock Exchange, Inc.

Common Stock Purchase Rights Chicago Stock Exchange,
Incorporated

7-3/4% Notes Due 2002
(issued by W. R. Grace & Co.-Conn., New York Stock
Exchange, Inc.
a wholly owned subsidiary) and
related Guarantees

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the Proxy Statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ---

The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately \$6.0 billion at February 1, 1996.

At March 1, 1996, 98,038,423 shares of W. R. Grace & Co. Common Stock, \$1 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
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Proxy Statement for Annual Meeting to be held May 10, 1996 (specified portions)	Part III
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PART I

Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information concerning environmental matters.

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ITEM 2. PROPERTIES.

Grace operates manufacturing and other types of plants and facilities (including office and other service facilities) throughout the world, some of which are shared by two or more of Grace's product lines. Grace considers its major operating properties to be in good operating condition and suitable for their current use. Although Grace believes that, after taking planned expansion into account, the productive capacity of its plants and other facilities is generally adequate for current operations and foreseeable growth, it conducts ongoing, long-range forecasting of its capital requirements to assure that additional capacity will be available when and as needed (see information regarding Grace's capital expenditures in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and on page F-27 of the Financial Supplement). Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity.

Additional information regarding Grace's properties is set forth in Item 1 above and in Notes 1, 9 and 12 to the Consolidated Financial Statements in the Financial Supplement.

ITEM 3. LEGAL PROCEEDINGS.

Asbestos Litigation. Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related

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lawsuits in the future. Grace was a defendant in approximately 40,800 asbestos-related lawsuits at year-end 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury), as compared to approximately 38,700 lawsuits at year-end 1994 (65 involving claims for property damage and the remainder involving approximately 67,900 claims for personal injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through year-end 1995, 129 asbestos property damage cases were dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 10 cases (excluding cases settled following appeals of judgments in favor of Grace and a case in which the plaintiff was granted a new trial on appeal); Grace was held liable for a total of \$74.7 million in 7 cases (2 of which are on appeal); and 177 property damage suits and claims were settled for a total of \$421.8 million.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1995 were the following class actions: (1) a Pennsylvania state court action (Prince George Center, Inc. v. U.S. Gypsum Company, et al., Court of Common Pleas of Philadelphia County), certified in 1992, covering all commercial buildings in the United States leased in whole or in part to the United States government on or after May 30, 1986; (2) an action, conditionally certified by the United States Court of Appeals for the Fourth Circuit in 1993 and pending in the United States District Court for the District of South Carolina, covering all public and private colleges and universities in the United States whose buildings contain asbestos materials (Central Wesleyan College, et al. v. W. R. Grace, et al.); and (3) a purported class action (Anderson Memorial Hospital, et al. v. W. R. Grace & Co., et al.), filed in 1992 in the Court of Common Pleas for Hampton County, South Carolina, on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of the other named defendants, other than buildings subject to the class action lawsuits described above and any building owned by the federal or any state government. In December 1995, Grace entered into an agreement to settle the claims under Prince George Center, Inc. v. U.S. Gypsum Company, et al. The terms of the settlement agreement (which is subject to judicial review and approval after class members have an opportunity to be heard) are not expected to have a significant effect on Grace's consolidated results of operations or financial position. In July

1994, the claims of most class members in Anderson Memorial Hospital, et al., v. W. R. Grace & Co., et al. were dismissed due to a ruling that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision. In August 1994, Grace entered into an agreement to settle In re: Asbestos School Litigation, a nationwide class action brought in 1983 in the United States District Court for the Eastern District of Pennsylvania on behalf of all public and private elementary and secondary schools in the United States that contain friable asbestos materials (other than schools that "opted out" of the class). The terms of the settlement agreement (which were approved by the District Court in September 1995) are not expected to have a significant effect on Grace's consolidated results of operations

or financial position.

The remaining asbestos lawsuits pending at year-end 1995 involved claims for personal injury. Through year-end 1995, approximately 10,100 personal injury lawsuits involving 24,500 claims were dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 23,700 such suits involving 29,600 claims were disposed of for a total of \$109 million (see "Insurance Litigation" below). However, as a result of various trends (including the insolvency of other former asbestos producers and cross-claims by co-defendants in asbestos personal injury lawsuits), the costs incurred in disposing of such lawsuits in the past may not be indicative of the costs of disposing of such lawsuits in the future.

In 1991, the Judicial Panel on Multi-District Litigation consolidated in the United States District Court for the Eastern District of Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the federal courts, including approximately 7,000 cases then pending against Grace; 3,600 new cases involving 7,200 claims against Grace have subsequently been added to the consolidated cases. To date, no action has been taken by the court handling the consolidated cases that would indicate whether the consolidation will affect Grace's cost of disposing of these cases or its defense costs.

Grace's ultimate exposure with respect to its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. As discussed below under "Insurance Litigation," a May 1994 decision of the U.S. Court of Appeals for the Second Circuit limited the amount of insurance

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coverage available with respect to property damage lawsuits and claims. Because Grace's insurance covers both property damage and personal injury lawsuits and claims, the May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury lawsuits and claims. However, in Grace's opinion, it is probable that recoveries from its insurance carriers, along with other funds, will be available to satisfy the property damage and personal injury lawsuits and claims pending at year-end 1995, as well as personal injury lawsuits and claims expected to be filed through 1998. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated results of operations or financial position. See "Insurance Litigation" below and Note 2 to the Consolidated Financial Statements in the Financial Supplement for additional information.

Environmental Proceedings. Grace (together with other companies) has been designated a "potentially responsible party" ("PRP") by the United States Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 1995, proceedings were pending with respect

to approximately 30 sites as to which Grace has been designated a PRP. Federal law provides that all PRPs may be held jointly and severally liable for the costs of investigating and remediating a site. Grace is also conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

In addition, in 1989, Hatco Corporation ("Hatco"), which purchased the assets of a Grace chemical business in 1978, instituted a lawsuit against Grace in the United States District Court for the District of New Jersey (Hatco Corporation v. W. R. Grace & Co.-Conn.) seeking recovery of cleanup costs for waste allegedly generated at a New Jersey facility during the period of Grace's ownership. Grace subsequently filed a lawsuit against its insurance carriers seeking indemnity against any damages assessed against Grace in the underlying lawsuit, as well as defense costs. In decisions rendered during 1993, the District Court ruled that Grace is responsible for a substantial portion of Hatco's costs. In July 1995, the United States Court of Appeals for the Third Circuit reversed the decisions of the District Court and remanded the lawsuit to the District Court for further proceedings. Specifically, the Court of Appeals (a) reversed the District Court's ruling that Grace is responsible for a substantial portion of Hatco's costs and (b) ruled that in the remand proceeding the burden of proof would be on Hatco to establish that it had not released Grace from the asserted liabilities. In an earlier

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decision, the District Court had resolved, in a manner favorable to Grace, certain legal issues regarding Grace's right to insurance coverage; however, the ultimate liability of Grace's insurance carriers will be determined at trial, should a trial be necessary after the remand proceedings described above. Remediation costs, and Grace's share, if any, of such costs, will be determined once ongoing site investigations are completed and a remediation plan is approved by the State of New Jersey. As a result of the above factors, the amount that Grace may be required to pay to Hatco, if any (which Grace expects will be partially offset by recoveries from insurance carriers), cannot be reliably estimated at this time.

In November 1995, Grace received a letter from the United States Department of Energy ("DOE") inquiring as to Grace's willingness to contribute to the continued cleanup of a former Grace property located in Wayne, New Jersey. The letter asserted that Grace has a legal duty to pay for the site's cleanup and that the total cost of cleanup may exceed \$100 million. The operations conducted by Grace at the Wayne site (from 1955 to 1970) included work done on radioactive materials under contract with the United States government for the "Manhattan Project" and with the United States Atomic Energy Commission. In 1975, the United States Nuclear Regulatory Commission inspected the site, concluded that it was decontaminated in accordance with applicable regulations and released it for unrestricted use. In 1984, pursuant to a request from the DOE, Grace transferred the Wayne property to the DOE and made a cash payment as a contribution towards the DOE's cleanup efforts at the site, which was acknowledged by the DOE as fulfilling

any obligation Grace had to contribute to DOE's cleanup effort. As a result of these transactions, Grace believes it has no further obligation to contribute to the DOE's cleanup activities.

In March 1993, an action was filed in the United States District Court for the Southern District of Texas against Grace Drilling Company, a subsidiary of the Company the business and assets of which have since been sold, and several other defendants, for alleged violations of the Clean Water Act and the Rivers and Harbors Act (U.S. v. Fina Oil and Chemical Co., et al.). The government alleges that seagrasses and seabeds around a drilling rig operated by Fina Oil and Chemical Co. were damaged in connection with the placing, servicing and removal of the rig. The government is seeking injunctive relief requiring the defendants to restore the damaged areas and to compensate for temporary loss of the seagrass habitat, as well as civil penalties of up to \$25,000 per day of violation and attorneys' fees.

Grace is also a party to other proceedings involving federal, state and/or local government agencies and private parties

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regarding Grace's compliance with environmental laws and regulations. These proceedings are not expected to result in significant sanctions or in any material liability. As a voluntary participant in the EPA Toxic Substances Control Act Compliance Audit Program, Grace agreed to undertake a corporate-wide audit of compliance with Section 8 of such Act and to pay a stipulated civil penalty for each study or report that EPA alleges should have been, but was not, submitted to the EPA as required under such Section. Although final review of the audit is not complete, Grace believes it will be required to pay the EPA penalties aggregating from \$250,000 to \$400,000 for information discovered in the course of the audit. In addition, Grace has voluntarily reported to the EPA violations of certain notification and related requirements under such Act, and penalties may be assessed against Grace in connection therewith; however, the amount of such penalties cannot be determined at this time.

Grace believes that the liabilities for environmental remediation costs that have been recorded in the Consolidated Financial Statements are adequate. In addition, Grace is presently involved in litigation with its insurance carriers seeking to hold them responsible for certain amounts for which Grace may be held liable with respect to such costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive in connection therewith, is presently uncertain. For further information, see Note 12 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement.

Insurance Litigation. Grace is involved in litigation with certain insurance carriers with respect to asbestos-related claims and environmental liabilities. Its asbestos-related insurance actions consist of a case styled Maryland Casualty Co. v. W. R. Grace & Co.,

pending in the United States District Court for the Southern District of New York; Dayton Independent School District v. United States Mineral Products Company, et al., pending in the United States District Court for the Eastern District of Texas; Independent School District No. 197, et al. v. W. R. Grace & Co. and Accident & Casualty Insurance Co., et al., pending in the First Judicial District in Minnesota; The County of Hennepin v. Central National Insurance Company, et al., pending in the Fourth Judicial District in Minnesota; Ecolab, Inc. v. Central National Insurance Co., pending in the District Court for Ramsey County, Minnesota; and American Employers' Insurance Co., American Re-Insurance Co., Commercial Union Insurance Co., and Unigard Security Insurance Co. v. W. R. Grace & Co., Continental Casualty Co., and Maryland Casualty Co., which is pending in the New York state courts; Grace's insurance actions relating to environmental liabilities consist of

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Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the Southern District of New York; and Hatco Corp. v. W. R. Grace & Co.-Conn., pending in the United States District Court for the District of New Jersey. The relief sought by Grace in these actions would provide insurance to partially offset Grace's estimated exposure with respect to the actions' subject matter, including amounts previously expended by Grace to defend claims and satisfy judgments and settlements (see Note 2 to the Consolidated Financial Statements in the Financial Supplement). The factual bases underlying these actions are the nature of the underlying asbestos-related and environmental claims, the language of the insurance policies sold by the carriers to Grace and the drafting history of those policies.

In 1991 (in an asbestos-related case involving Maryland Casualty Co.), the United States District Court for the Southern District of New York determined that coverage for property damage is triggered by the "discovery of damage" during the period covered by the relevant policy. In September 1993, the United States Court of Appeals for the Second Circuit reversed the District Court's ruling as to a "discovery of damage" trigger for such claims and, instead, ruled that coverage for these claims is triggered based on the date of installation of asbestos-containing materials. In January 1994, the United States Court of Appeals for the Second Circuit granted Grace's petition for a rehearing concerning the September 1993 decision, and in May 1994, the Court issued a new decision confirming its September 1993 decision. As a result, Grace recorded net noncash charges totaling \$300 million after taxes in 1993 and 1994 to reflect the reduction in asbestos property damage insurance coverage. Subsequently, the Second Circuit refused to rehear its decision, and the United States Supreme Court denied Grace's petition for a writ of certiorari with respect to that decision.

In 1991 and 1994, a Mississippi court held that certain of Grace's excess insurance carriers are obligated to defend and indemnify Grace, determining that, for purposes of insurance coverage, damage to

buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (referred to as a "continuous trigger"); Grace subsequently settled with each of the insurance carriers, and an appeal of the Mississippi court's decision was dismissed. In 1992, the Minnesota court referred to above reached a similar decision in interpreting Grace's insurance policies. In January 1994, the Minnesota court entered judgment against certain of Grace's carriers in the amount of \$14.2 million, but that judgment was reversed by the Minnesota Court of Appeals in January 1995. After the Minnesota Supreme Court

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denied review of this decision, the parties agreed to settlements in 1995 and early 1996.

Prior to 1993, Grace received payments totaling \$97.7 million from insurance carriers, the majority of which represented the aggregate remaining obligations owed to Grace by those carriers for primary-level insurance coverage written for the period June 30, 1962 through June 30, 1987. In 1993 and 1994, Grace settled with insurance carriers for a total of \$300.2 million (portions of which were paid or will be paid in subsequent years) in reimbursement for amounts expended by Grace in connection with asbestos-related litigation. In 1995, Grace settled with a primary-level insurer for \$100 million, and with other insurers for a total of \$200.3 million, including future payments of approximately \$70 million. As a result of these settlements, insurance litigations were dismissed as to the primary-level product liability insurance coverage previously sold by the relevant insurers to Grace; however, litigations continue as to certain excess-level carriers.

In a 1995 settlement included in the amounts set forth above, Grace settled with an affiliated group of excess-level carriers that had agreed to a settlement in 1993, had made a series of payments under that agreement and had subsequently notified Grace that it would no longer honor the agreement. Pursuant to the 1995 settlement, the group of carriers paid Grace \$44 million in 1995, and agreed to make additional payments totaling \$60.2 million in 1996 and 1997. Pursuant to a settlement with another group of carriers, Grace received \$26.8 million in 1995 and \$9.7 million in early 1996. Grace will also continue to receive payments under these agreements based on future cash outflows for asbestos-related litigation and claims; such payments are estimated to represent approximately \$237.3 million of the asbestos-related receivable of \$321.2 million at December 31, 1995.

See Note 2 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information.

Fumed Silica Plant Litigation. In 1993, Grace initiated legal action in the Belgian courts against the Flemish government to recover losses resulting from the closing of Grace's fumed silica plant in Puurs, Belgium. Grace is seeking damages in excess of four billion Belgian

francs (approximately \$135.5 million at the December 29, 1995 exchange rate), plus interest and lost profits. This claim was dismissed at the trial court level and is now being appealed by Grace. The trial court also determined that Grace should repay approximately 239 million Belgian francs (approximately \$8.1 million at the December 29, 1995 exchange rate) plus

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interest to the Flemish government for previously received investment grants; this decision is also being appealed by Grace. Also pending is an arbitration involving the engineering company that was responsible for the design and construction of the fumed silica plant. The outcome of this proceeding may affect the action filed against the Flemish government.

Shareholder Litigation. Commencing in March 1995, five lawsuits were brought against the Company and members of its Board of Directors (as well as J. P. Bolduc, who resigned as President and Chief Executive Officer and a director of the Company in March 1995) in New York State Supreme Court, New York County. These lawsuits were consolidated in the case entitled *Weiser, et al. v. Grace, et al.* The consolidated amended complaint in this lawsuit, which purports to be a derivative action (i.e., an action brought on behalf of the Company), alleges, among other things, that the individual defendants breached their fiduciary duties to the Company (a) by providing J. Peter Grace, Jr. (the Chairman and a director of the Company until his death in April 1995) with certain compensation arrangements upon his voluntary retirement as the Company's Chief Executive Officer in 1992 and (b) by approving Mr. Bolduc's severance arrangements, and that Messrs. Grace and Bolduc breached their fiduciary duties by accepting such benefits and payments. The lawsuit seeks unspecified damages, the cancellation of all allegedly improper agreements, the cancellation of the non-employee director retirement plan, the return of all remuneration paid to the present and former directors who are defendants while they were in breach of their fiduciary duties to the Company, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem appropriate.

In March 1996, two purported shareholder derivative class actions were filed in New York State Supreme Court, New York County, against the Company and Albert J. Costello, the Company's Chairman, President and Chief Executive Officer, alleging that the defendants breached their fiduciary duties to the Company's shareholders by failing to investigate and consider fully a proposal by Hercules, Incorporated to acquire or merge with Grace (Izes, etc. v. W. R. Grace & Company, et al. and Polikoff, etc. v. W. R. Grace & Company, et al.). The lawsuits seek injunctive relief ordering defendants to carry out their fiduciary duties by considering and evaluating such proposal, unspecified monetary damages, costs and counsel fees and such other relief as the Court deems proper.

Securities and Exchange Commission Investigation. The Company has been notified that the Securities and Exchange Commission has issued a formal order of investigation with respect to the

Company's prior disclosures regarding benefits and retirement arrangements provided to J. Peter Grace, Jr., and certain matters relating to J. Peter Grace III, a son of J. Peter Grace, Jr. The Company is cooperating fully with the investigation.

NMC - OIG Investigation. On October 17, 1995, NMC received five investigative subpoenas from the Office of the Inspector General of the United States Department of Health and Human Services ("OIG"). The subpoenas call for the production of extensive documents relating to various aspects of NMC's business. A letter accompanying the subpoenas stated that they had been issued in conjunction with an investigation being conducted by the OIG, the United States Attorney for the District of Massachusetts and others, concerning possible violations of federal laws relating to health care payments and reimbursements. The five subpoenas cover the following areas: (a) NMC's corporate management, personnel and employees, organizational structure, financial information and internal communications; (b) NMC's dialysis services business, principally medical director contracts and compensation; (c) NMC's treatment of credit balances resulting from overpayments received under the Medicare ESRD program and its payment of supplemental medical insurance premiums on behalf of indigent patients; (d) NMC's LifeChem laboratory business, including documents relating to testing procedures, marketing, customers, competition and certain overpayments totaling approximately \$4.9 million that were received by LifeChem from the Medicare program with respect to laboratory services rendered between 1989 and 1993; and (e) NMC's Homecare Division and, in particular, information concerning the intradialytic parenteral nutrition ("IDPN") business, including billing practices related to various services, equipment and supplies and payments made to third parties as compensation for administering IDPN therapy.

NMC is cooperating with the OIG investigation and has made, and is expected to continue to make, extensive production of documents and information in response to the subpoenas. The results of the investigation and its impact, if any, cannot be predicted at this time. In the event that a U.S. government agency believes that any wrongdoing has occurred, civil and/or criminal proceedings could be instituted, and if any such proceedings were to be instituted and the outcome were unfavorable, NMC could be subject to fines, penalties and damages or could become excluded from government reimbursement programs. Any such result could have a material adverse effect on NMC's financial position or the results of operations of NMC and Grace.

Under the terms of the proposed transaction with Fresenius AG described above under "Strategic Restructuring and Other Growth

Initiatives," any liability arising as a result of the OIG

investigation would remain the responsibility of NMC.

NMC - OBRA 93 Litigation. The Omnibus Budget Reconciliation Act of 1993 ("OBRA 93") affected the payment of benefits under Medicare and employer health plans for certain eligible ESRD patients. In July 1994, the Health Care Financing Administration ("HCFA") issued an instruction to Medicare claims processors to the effect that Medicare benefits for the patients affected by OBRA 93 would be subject to a new 18-month "coordination of benefits" period. This instruction had a positive impact on NMC's dialysis revenues because, during the 18-month coordination of benefits period, the patient's employer health plan was responsible for payment, which was generally at a rate higher than that provided under Medicare.

In April 1995, HCFA issued a new instruction, reversing its original instruction in a manner that would substantially diminish the positive effect of the initial instruction on NMC's dialysis business. Under the new instruction, no 18-month coordination of benefits period would arise, and Medicare would remain the primary payor. HCFA further proposed that its new instruction be effective retroactive to August 1993, the effective date of OBRA 93. Consequently, NMC may be required to refund payments received from employer health plans for services provided after August 1993 under HCFA's original instruction and to re-bill Medicare for the same services, which would result in a cumulative reduction of net revenues to NMC totaling approximately \$120 million as of December 31, 1995. Effective July 1, 1995, NMC ceased to recognize the incremental revenue realized under the original instruction, which has resulted in a material reduction in NMC's operating earnings in comparison to prior periods in which NMC recognized such incremental revenue. However, NMC continued to bill the employer health plans as primary payors through December 31, 1995, at which time NMC commenced billing Medicare for the patients affected by OBRA 93.

In May 1995, NMC filed suit in the United States District Court for the District of Columbia seeking a declaratory judgment with respect to HCFA's instructions relating to OBRA 93 (National Medical Care, Inc., et al. v. Shalala). In June 1995, the court granted NMC's motion for a preliminary injunction to preclude HCFA from retroactively enforcing its new instruction. The litigation is continuing with respect to NMC's request to permanently enjoin HCFA's new instruction, both retroactively and prospectively. While there can be no assurance that a permanent injunction will be issued, NMC believes that it will ultimately prevail in its claim that the retroactive reversal by HCFA of its original instruction

relating to OBRA 93 was impermissible under applicable law. If HCFA's revised instruction is upheld, NMC's business, financial position and results of operations would be materially adversely affected, particularly if the revised instruction is applied retroactively.

NMC - IDPN Proceedings. NMC administers IDPN therapy to chronic

dialysis patients who suffer from severe gastrointestinal malfunctions. Since late 1993, Medicare claims processors have applied medical coverage interpretations in a manner that has sharply reduced the number of IDPN claims approved for payment as compared to prior periods. NMC believes that the reduction in IDPN claims currently being paid by Medicare represents an unauthorized policy coverage change. Accordingly, NMC and other IDPN providers are pursuing various administrative and legal remedies, including administrative appeals, to address this reduction. In November 1995, NMC filed a complaint in the United States District Court for the Middle District of Pennsylvania (NMC Homecare, Inc. v. Shalala) seeking a declaratory judgment and injunctive relief to prevent the implementation of this policy coverage change.

NMC management believes that its IDPN claims are consistent with published Medicare coverage guidelines and ultimately will be approved for payment. Such claims represent substantial accounts receivable of NMC, amounting to \$93 million as of December 31, 1995, and currently increasing at the rate of approximately \$5 million per month. If NMC is unable to collect its IDPN receivable, or if IDPN coverage is reduced or eliminated, depending on the amount of the receivable that is not collected and/or the nature of the coverage change, NMC's business, financial position and results of operations could be materially adversely affected.

As previously reported, in May 1995 the Medicare claims processors circulated a draft coverage policy which, if implemented in the form proposed, would have limited or precluded continued coverage of parenteral and enteral nutrition ("PEN") therapies, including IDPN therapy. In March 1996, NMC received a copy of a revised final version of the new coverage policy, which is expected to become effective for services billed on and after July 1, 1996. While the new policy permits continued coverage of IDPN and other PEN therapies, and while the potential impact of the new policy is subject to further analysis, NMC believes that the new policy would make it substantially more difficult to qualify patients for future coverage by, among other things, requiring certain patients to undergo onerous and/or invasive tests in order to qualify for coverage. NMC, together with other interested parties, plans to seek to effect certain changes in the new policy, and NMC is considering changes to its patient qualification procedures in

order to comply with the policy. However, if NMC is unable to achieve changes in the new policy, if physicians and patients fail to accept the new qualification procedures and/or if patients fail to qualify under such procedures, the policy could significantly reduce the number of patients eligible for Medicare coverage of IDPN and other PEN therapies, which would have a material adverse effect on NMC's financial position and results of operations.

NMC - Import Alerts. In 1993, the United States Food and Drug

Administration ("FDA") issued import alerts with respect to (a) hemodialysis bloodlines manufactured at NMC's facility in Reynosa, Mexico and (b) hemodialyzers manufactured in NMC's Dublin, Ireland facility. Products subject to FDA import alerts may not enter the United States until the FDA approves the quality assurance systems of the facility at which such products are manufactured. In January 1994, NMC entered into a consent decree providing that the importation of bloodlines and hemodialyzers could resume upon certification by NMC that the relevant facility complies with FDA regulations and successful completion of an FDA inspection to verify such compliance. The consent decree also required NMC to certify, and be inspected for, compliance with applicable FDA manufacturing requirements at all of its United States manufacturing facilities.

NMC submitted all required certifications for its United States and non-United States facilities in accordance with the timetable specified in the consent decree, and the bloodline import alert was lifted in March 1994. The Dublin hemodialyzer import alert was lifted in December 1995. No fines or penalties have been imposed on NMC as a result of the FDA's actions or in connection with the consent decree.

NMC - Grand Jury Investigations. NMC has received multiple subpoenas from a federal grand jury in the District of New Jersey investigating, among other things, (a) NMC's efforts to persuade the United States Food and Drug Administration to lift a January 1991 import hold issued with respect to NMC's Dublin, Ireland facility, (b) whether NMC sold defective products, (c) the manner in which NMC handled customer complaints and (d) the development of a new dialyzer product line. Grace has also received two subpoenas relating to this investigation. NMC and Grace have made extensive document production in response to these subpoenas and have fully cooperated with the grand jury in response to these subpoenas. In February 1996, the United States Attorney for the District of New Jersey notified NMC that it is a target of the New Jersey grand jury investigation, insofar as it relates to possible violations of federal criminal law in connection with efforts to affect the January 1991 import hold referred to above; the material element of the import hold was lifted in 1992.

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In addition, in December 1994, a subsidiary of NMC received a subpoena from a federal grand jury in the Eastern District of Virginia investigating the contractual relationships between subsidiaries of NMC that provide dialysis services and third parties that provide medical directorship and related services to those subsidiaries. NMC has made document production in response to this subpoena.

The outcome of these investigations and their impact, if any, on NMC's business, financial condition and results of operations cannot be predicted at this time.

Shareholder Actions relating to NMC. In 1995, nine purported class action lawsuits were brought against the Company and certain of its officers and directors in various federal courts. These lawsuits are

being consolidated in the case entitled *Murphy, et al. v. W. R. Grace & Co., et al.*, which is pending in the United States District Court for the Southern District of New York. The first amended class action complaint in this lawsuit, which purports to be a class action on behalf of all persons and entities who purchased the Company's publicly traded securities during the period from March 13, 1995 through October 17, 1995, generally alleges that the defendants concealed information, and issued misleading public statements and reports, concerning NMC's financial position and business prospects, a proposed spin-off of NMC and the matters that are the subject of the investigations described above in "NMC - OIG Investigation" and "NMC - Grand Jury Investigations," in violation of federal securities laws. The lawsuit seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In October 1995, a purported derivative lawsuit was filed in the United States District Court for the Southern District of Florida, Northern Division, against the Company, certain of its directors and its former President and Chief Executive Officer, alleging that such individuals breached their fiduciary duties by failing to properly supervise the activities of NMC in the conduct of its business (*Bennett v. Bolduc, et al.*). In December 1995, the plaintiff in this action filed a new action, based on similar allegations, in the United States District Court for the Southern District of New York (*Bennett v. Bolduc, et al.*). The Florida action has been dismissed in favor of the action filed in the Southern District of New York. A second action making similar allegations was filed in October 1995 in New York State Supreme Court, New York County (*Bauer v. Bolduc, et al.*). The Company has been advised that this action will be dismissed or stayed in favor of the *Bennett* action, which has been consolidated, for discovery purposes only, with the *Murphy* action described above. The com-

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plaint in the *Bennett* action seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In February 1996, a purported class action was filed in New York State Supreme Court, New York County, against the Company, certain of its directors and a former director, alleging that the defendants breached their fiduciary duties in connection with the Company's agreement to combine NMC with Fresenius AG's worldwide dialysis business, as described in Item 1 above under "Strategic Restructuring and Other Growth Initiatives" (*Rosman v. W. R. Grace & Co., et al.*). The lawsuit seeks injunctive relief ordering defendants to carry out their fiduciary duties and preventing or rescinding the transaction or any related transactions with Fresenius AG, unspecified monetary damages, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem just and proper.

See Note 7 to the Consolidated Financial Statements for additional information concerning litigation involving NMC.

chemicals business (see discussion below), and, to a lesser extent, funds generated by operations. Grace expects to apply a substantial portion of the cash proceeds generated by these transactions to the reduction of borrowings. Any net excess is expected to be applied to the repurchase of shares of the Company's Common Stock and selected strategic acquisitions that complement existing businesses.

In the third quarter of 1995, Grace announced that its Board of Directors had authorized management to pursue options to maximize the value of its Grace Dearborn water treatment and process chemicals business. In March 1996, Grace announced that it had entered into a definitive agreement to sell Grace Dearborn to Betz Laboratories, Inc. for \$632.0 million. The transaction is expected to be completed in the second quarter of 1996.

In October 1995, in anticipation of the then pending spin-off of NMC, the Company's Board of Directors declared a quarterly cash dividend of 12.5 cents per share on the Company's Common Stock, a reduction from the previous quarterly cash dividend of 35 cents per share. At that time, the Board also approved a policy of paying dividends at a rate of 20% - 30% of the prior year's net earnings and authorized the repurchase of up to 10 million shares of the Company's Common Stock. In February 1996, after entering into the definitive agreement to combine NMC with FWD, the Board increased the number of shares that may be repurchased to 20% of the Company's outstanding Common Stock (see "Statement of Operations: Discontinued Operations" above and Note 7 to the Consolidated Financial Statements).

ASBESTOS-RELATED MATTERS

As reported in Note 2 to the Consolidated Financial Statements, Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and is involved in related litigation with certain of its insurance carriers. In 1995, Grace received \$97.0 million under settlements with certain insurance carriers, net of amounts paid for the defense and disposition of asbestos-related property damage and personal injury litigation. During the fourth quarter of 1995, Grace recorded a noncash pretax charge of \$275.0 million (\$178.7 million after-tax), primarily to reflect the estimated costs of defending against and disposing of personal injury lawsuits and claims expected to be filed through 1998. The balance sheet at December 31, 1995 includes a receivable due from insurance carriers, a portion of which is subject to litigation, of \$321.2 million. Grace has also recorded notes receivable of \$130.0 million (\$118.4 million after discounts) for amounts to be received in 1996 to 1999 pursuant to settlement agreements previously entered into with certain insurance carriers.

Although the amounts to be paid in 1996 in respect of asbestos-related lawsuits and claims cannot be precisely estimated, Grace expects that it will be required to expend approximately \$40.0 million (pretax) in 1996 to defend against and dispose of such lawsuits and claims (after giving effect to payments to be received from certain insurance carriers, as discussed above and in Note 2 to the Consolidated Financial Statements). As indicated therein, the amounts reflected in the Consolidated Financial Statements with respect to the probable cost of defending against and disposing of asbestos-related lawsuits and

claims and probable recoveries from insurance carriers represent estimates; neither the outcomes of such lawsuits and claims nor the outcomes of Grace's continuing litigations with certain of its insurance carriers can be predicted with certainty.

ENVIRONMENTAL MATTERS

Grace incurs costs to comply with environmental laws and regulations and to fulfill its commitment to industry initiatives and Grace standards. Worldwide expenses of continuing operations related to the operation and maintenance of environmental facilities and the disposal of hazardous and nonhazardous wastes totalled \$43.5 million, \$35.7 million and \$40.7 million in 1995, 1994 and 1993, respectively. Such costs are estimated to be approximately \$45.0 million and \$47.0 million in 1996 and 1997, respectively. In addition, worldwide capital expenditures for continuing operations relating to environmental protection totalled \$14.9 million in 1995, compared to \$21.5 million and \$19.3 million in 1994 and 1993, respectively. Capital expenditures to comply with environmental initiatives in future years are estimated to be \$20.0 million and \$17.0 million in 1996 and 1997, respectively. Grace has also incurred costs to remediate environmentally impaired sites. These costs were \$31.3 million, \$30.8 million and \$44.4 million in 1995, 1994 and 1993, respectively. These amounts have been charged against previously established reserves. Future cash outlays for remediation costs are expected to total \$30.0 million in 1996 and \$20.0 million in 1997. Expenditures have been funded from internal sources of cash and are not expected to have a significant effect on liquidity.

Grace accrues for anticipated costs associated with investigatory and remediation efforts relating to the environment in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," which requires estimating the probability and amount of future costs. At December 31, 1995, Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations totalled approximately \$280.3 million, which amount does not take into account any discounting for future expenditures or possible future insurance recoveries. The measurement of the liability is evaluated quarterly based on currently available information. In 1995 and 1994, periodic provisions were recorded for environmental and plant closure expenses, which include the costs of future environmental investigatory and remediation activities. Additionally, in the fourth quarter of 1995 and first quarter of 1994, Grace recorded pretax provisions of \$77.0 million and \$40.0 million (\$50.0 million and \$26.0 million after-tax), respectively, principally to provide for future costs related to remediation activities required at former manufacturing sites.

FINANCIAL INSTRUMENTS Grace enters into interest rate agreements and foreign exchange forward and option contracts to manage exposure to fluctuations in interest and foreign currency exchange rates.

The cash differentials paid or received on interest rate agreements are accrued and recognized as adjustments to interest expense. Gains and losses realized upon settlement of these agreements (recorded as other liabilities and other assets, respectively) are deferred and either amortized to interest expense over a period relevant to the agreement if the underlying hedged instrument remains outstanding, or recognized immediately if the underlying hedged instrument is settled. Cash flows related to the agreements are classified as operating activities in the Consolidated Statement of Cash Flows, consistent with the interest payments on the underlying debt.

Gains and losses on foreign currency forward and option contracts offset gains and losses resulting from the underlying transactions. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and recorded in net income in the period in which the related transaction is consummated. Gains and losses on contracts that hedge net investments in foreign subsidiaries are recorded in the cumulative translation adjustments account in shareholders' equity.

EARNINGS PER SHARE Primary earnings per share are computed on the basis of the weighted average number of common shares outstanding. Fully diluted earnings per share assume the issuance of common stock equivalents related to employee stock options and, prior to 1994, the conversion of convertible debt (with an increase in net income for the after-tax interest savings).

2. ASBESTOS AND RELATED INSURANCE LITIGATION

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related lawsuits in the future. Grace was a defendant in approximately 40,800 asbestos-related lawsuits at December 31, 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury), as compared to approximately 38,700 lawsuits at December 31, 1994 (65 involving claims for property damage and the remainder involving approximately 67,900 claims for personal injury).

PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through December 31, 1995, 129 asbestos property damage cases were dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 10 cases (excluding cases settled following appeals of judgments in

favor of Grace and a case in which the plaintiff was granted a new trial on appeal); Grace was held liable for a total of \$74.7 in 7 cases (2 of which are on appeal); and 177 property damage suits and claims were settled for a total of \$421.8.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1995 was a class action, conditionally certified by the U.S. Court of Appeals for the Fourth Circuit in 1993 and pending in a U.S. District Court in South Carolina, covering all public and private colleges and universities in the U.S. whose buildings contain asbestos materials.

In July 1994, a South Carolina state court judge dismissed the claims of most class members from another purported nationwide class action asbestos property damage lawsuit. In his ruling, the judge held that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision.

In December 1995, Grace entered into an agreement to settle a Pennsylvania state court action, certified as a class action in 1992, covering all commercial buildings in the U.S. leased in whole or in part to the U.S. government on or after May 30, 1986. The terms of the settlement agreement (which is subject to judicial review and approval after class members have an opportunity to be heard) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

PERSONAL INJURY LITIGATION

Through December 31, 1995, approximately 10,100 asbestos personal injury lawsuits involving 24,500 claims were dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 23,700 such suits involving 29,600 claims were disposed of for a total of \$109.0.

ASBESTOS-RELATED LIABILITY

Subject to the factors discussed below, Grace estimates that its probable liability with respect to the defense and disposition of asbestos property damage and personal injury lawsuits and claims pending at December 31, 1995 and 1994 (and, in the case of the 1995 estimate, personal injury lawsuits and claims expected to be filed through 1998), is as follows:

December 31,	1995	1994
Current liability for asbestos-related litigation (1)	\$100.0	\$100.0
Noncurrent liability for asbestos-related litigation	722.3	612.4
Total asbestos-related liability	\$822.3	\$712.4

(1) Included in "Other current liabilities" in the Consolidated Balance Sheet.

In the fourth quarter of 1995, Grace recorded a noncash pretax charge of \$260.0 (\$169.0 after-tax) for asbestos-related liabilities, primarily to reflect the estimated costs to defend against and dispose of personal injury claims expected to be filed through 1998; Grace believes that it now has adequate experience to reasonably estimate the number of personal injury claims to be filed through 1998 and the costs of defending against and disposing of these claims. Other components of the 1995 provision include increases in the estimated costs of defending against and disposing of certain property damage cases pending at year-end 1995 and personal injury lawsuits and claims filed during 1995.

While personal injury cases and claims are generally similar to each other (differing only in the type of asbestos-related illness allegedly suffered by the plaintiff), Grace's estimated liability for such cases and claims is influenced by numerous variables that are difficult to predict (including the insolvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new cases and claims are filed and the defense and disposition costs associated with these cases and claims). Consequently, actual costs may vary from any estimate. For these reasons, Grace believes that it is not possible to reasonably estimate the number of cases and claims to be filed after 1998 or the costs of defending against and disposing of such cases and claims.

Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure; thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of such cases in the future. In addition, in property damage cases, information regarding product identification on a building-by-building basis (i.e., whether or not Grace products were actually used in the construction of the building), the age, type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide the only meaningful guidance as to potential future costs. However, much of this information is not yet available in some of the property damage cases currently pending against Grace. Accordingly, it is not possible to estimate with precision the costs of defending against and disposing of these cases. Further, Grace believes that the number of property damage cases to be filed in the future and the costs associated with these filings are not estimable.

ASBESTOS-RELATED INSURANCE RECEIVABLE

Grace's ultimate exposure with respect to its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. The following table shows Grace's total estimated insurance recoveries in reimbursement for past and estimated future payments to defend against and dispose of asbestos-related litigation and claims:

December 31, 1995 1994

Notes receivable from insurance carriers -
current, net of discounts of \$4.3 in
1995 (1) \$ 62.0 \$127.0

Notes receivable from insurance carriers -
noncurrent, net of discounts of \$7.3 in
1995 (2) 56.4 60.0

Asbestos-related insurance receivable 321.2 512.6

Total amounts due from insurance carriers \$439.6 \$699.6
=====

(1) Included in "Notes and accounts receivable, net" in the Consolidated Balance Sheet.

(2) Included in "Other assets" in the Consolidated Balance Sheet.

At December 31, 1995, settlements with certain insurance carriers provided for the future receipt by Grace of \$130.0, which Grace has recorded as notes receivable (both current and noncurrent) of \$118.4, after discounts. In 1995, Grace received a total of \$257.3 pursuant to settlements with insurance carriers in reimbursement for monies previously expended by Grace in connection with asbestos-related litigation; of this amount, \$127.0 was received pursuant to settlements entered into in 1993 and 1994, which had previously been classified as notes receivable.

During 1995, Grace settled with an affiliated group of carriers that had agreed to a settlement in 1993, had made a series of payments under that agreement and had subsequently notified Grace that it would no longer honor the agreement. Pursuant to the 1995 settlement, the group of carriers paid Grace \$44.0 in 1995 and agreed to make additional payments totalling \$60.2 in 1996 and 1997 (which Grace has recorded as notes receivable, after discounts, of \$54.5). Pursuant to a settlement with another group of carriers, Grace received \$26.8 in 1995 and expects to receive an additional payment of \$9.7 in 1996. Under both settlements, Grace will continue to receive payments based on future cash outflows for asbestos-related litigation and claims; such payments are estimated to represent approximately \$237.3 of the asbestos-related receivable of \$321.2 at December 31, 1995.

As a result of these settlements and a reassessment of its insurance receivable, Grace recorded a noncash net pretax charge of \$15.0 (\$9.7 after-tax) during the fourth quarter of 1995 to reflect a reduction in the receivable, primarily due to lower than anticipated settlements with insurance carriers and a discount on notes receivable in connection with prior settlements, partially offset by an increase in expected future reimbursements of costs to defend against and dispose

of property damage cases pending at year-end 1995 and personal injury claims to be filed through 1998.

INSURANCE LITIGATION

Grace continues to seek to recover from its excess insurers the balance of the payments it has made with respect to asbestos-related litigation. As part of this effort, Grace continues to be involved in litigation with certain of its insurance carriers (having previously settled with certain primary and excess carriers, as discussed above). For the period October 1962 through June 1985 --the most relevant period for asbestos-related litigation --Grace purchased, on an annual basis, as much as eight levels of excess insurance coverage. (In general, excess policies provide that when claims paid exhaust coverage at one level, the insured may seek payment from the carriers at the next higher level.) For that 23-year period, the first six levels of excess insurance available from the insurance companies that Grace believes to be solvent (based primarily upon reports from a leading independent insurance rating service) provide nominal coverage of approximately \$1,200.0 (including the amounts reflected in the receivable discussed above). However, (a) a portion of the personal injury lawsuits and claims pending at year-end 1995 and expected to be filed against Grace through 1998 will likely relate to periods for which no excess coverage is available; and (b) even where such excess coverage is available, the number of personal injury lawsuits and claims expected to be filed against Grace in the future is not expected to be sufficient to result in significant payments under such coverage. Further, as a result of the May 1994 decision of the U.S. Court of Appeals for the Second Circuit, discussed below, a significant portion of the nominal excess coverage is not available in connection with property damage lawsuits. In addition, \$142.0 of the \$1,200.0 relates to excess coverage written by a group of insurance carriers that, while currently solvent, has experienced financial difficulties in recent years. This group of carriers settled with Grace in 1995 (as discussed above). The asbestos-related receivable of \$321.2 at December 31, 1995 includes \$54.7 to be paid by this group; management believes this amount is fully collectible.

As previously reported, in September 1993 the U.S. Court of Appeals for the Second Circuit ruled that, under New York law (which governs a significant portion of the policies that provide Grace's asbestos-related insurance coverage), such coverage is triggered based on the date of installation of asbestos-containing materials. As a result of this decision (which had the effect of reducing the amount of insurance coverage available to Grace with respect to asbestos property damage litigation and claims), Grace recorded a noncash pretax charge of \$475.0 (\$300.0 after-tax) in the 1993 third quarter. Grace reversed \$316.0 (\$200.0 after-tax) of the pretax charge in the 1993 fourth quarter after the court withdrew its September 1993 decision and agreed to rehear the case, but reinstated the \$316.0 pretax charge (\$200.0 after-tax) in the second quarter of 1994, when the court issued a new decision confirming its September 1993 decision. Because Grace's insurance covers both property damage and personal injury lawsuits and claims, the May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury lawsuits and claims. However, in Grace's opinion, it is probable that recoveries from its insurance carriers

(including amounts reflected in the receivable discussed above), along with other funds, will be available to satisfy the personal injury and property damage lawsuits and claims pending at December 31, 1995, as well as personal injury lawsuits and claims expected to be filed through 1998. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated results of operations or financial position.

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3. ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS

During 1995, Grace made acquisitions totalling \$260.8 (inclusive of cash acquired and debt assumed), all of which involved cash purchases of kidney dialysis centers and medical imaging facilities by National Medical Care, Inc. (NMC), Grace's principal health care subsidiary. Acquisitions in the first quarter of 1995, prior to the classification of NMC as a discontinued operation (see Note 7), totalled \$41.1 (inclusive of cash acquired and debt assumed). Acquisitions by NMC subsequent to the first quarter of 1995 are presented as an investing activity and are included in "Increase in net assets of discontinued operations" in the Consolidated Statement of Cash Flows.

In 1994, Grace made acquisitions totalling \$351.7 (inclusive of cash acquired and debt assumed), primarily in health care. Grace acquired Home Nutritional Services, Inc. for approximately \$131.8 (inclusive of cash and assumed debt totalling \$30.4) and acquired kidney dialysis centers and other health care businesses during 1994 for an aggregate of approximately \$145.3 in cash. 1994 acquisitions also included construction chemicals businesses and a European flexible packaging business.

In 1993, Grace acquired Home Intensive Care, Inc. for approximately \$129.0 in cash and acquired other health care businesses for an aggregate of \$115.0 in cash and \$3.8 in common stock. Additionally, during 1993 Grace acquired Latin America's largest water treatment business for approximately \$57.6 in cash.

DIVESTMENTS

During 1995, Grace realized gross proceeds of \$58.8 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. The operations divested in 1995 consisted of three small units of Grace's construction products business, the composite materials business (previously classified as a discontinued operation), Grace's transportation services business and various investments.

In 1994, Grace realized gross proceeds of \$646.2 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. Substantially

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 1996
Commission file number 1-12139

W. R. GRACE & CO.
Incorporated under the Laws of the I.R.S. Employer Identification No.
State of Delaware 65-0654331

ONE TOWN CENTER ROAD, BOCA RATON, FLORIDA 33486-1010
561/362-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
---------------------	--

Common Stock, \$.01 par value	New York Stock Exchange, Inc.
Preferred Stock	
Purchase Rights	

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7-3/4% Notes Due 2002
(issued by W. R. Grace
& Co.-Conn., New York Stock Exchange, Inc.
a wholly owned
subsidiary) and
related Guarantees

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark whether the registrant (including its predecessor) (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the Proxy

Statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately \$3.8 billion at January 31, 1997.

At February 28, 1997, 74,048,314 shares of W. R. Grace & Co. Common Stock, \$.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document Where Incorporated

Proxy Statement for Annual Meeting to be held May 9, 1997 (specified portions)

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PART I

ITEM 1. BUSINESS.

INTRODUCTION AND OVERVIEW

W. R. Grace & Co., through its subsidiaries, is one of the world's leading packaging and specialty chemicals companies. Grace's core businesses are packaging, catalysts and other silica-based products, and construction products. It began operating these core businesses in 1954, when it acquired both the Dewey and Almy Chemical Company and the Davison Chemical Company. Grace believes that each of its core businesses is an industry leader, offers high value-added products, employs leading technology, and has a global presence. Grace's products and systems serve highly specialized market segments; accordingly, competition tends to be based primarily on technological capability, customer service, product quality, and, to a lesser extent,

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price. These products and systems also generally represent an important component (but a relatively small portion of the cost) of the end products or processes in which they are used. Grace believes that it provides highly differentiated, superior products and services through investments in research and development, facilities that enable Grace to take advantage of expanding global opportunities, and technology platforms capable of providing multiple products to anticipate and satisfy customer needs.

As used in this Report, the term "Company" refers to W. R. Grace & Co., a Delaware corporation, and the term "Grace" refers to the Company and/or one or more of its subsidiaries and, in certain cases, their respective predecessors. Grace's principal executive offices are located at One Town Center Road, Boca Raton, Florida 33486-1010, and its telephone number is 561/362-2000. At year-end 1996, Grace had approximately 17,400 full-time employees worldwide in its continuing operations

Statements

ITEM 3 LEGAL PROCEEDINGS.

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ASBESTOS LITIGATION. Grace is a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products, and anticipates that it will be named as a defendant in additional asbestos-related lawsuits in the future. Grace was a defendant in approximately 41,500 asbestos-related lawsuits at year-end 1996 (31 involving claims for property damage and the remainder involving approximately 91,500 claims for personal injury), as compared to approximately 40,800 lawsuits at year-end 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through 1996, 135 asbestos property damage cases were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 9 cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in 7 cases for a total of \$60.3 million (none of which is on appeal); and 186 property damage cases were settled for a total of \$450.5 million.

Included in the asbestos property damage cases pending against Grace and others at year-end 1996 were the following class actions: (a) an action, conditionally certified by the U.S. Court of Appeals for the Fourth Circuit in 1993 and pending in the U.S. District Court for the District of South Carolina, covering all public and private colleges and universities in the U.S. whose buildings contain asbestos materials (CENTRAL WESLEYAN COLLEGE, ET AL. V. W. R. GRACE, ET AL.); and (b) a purported class action (ANDERSON MEMORIAL HOSPITAL, ET AL. V. W. R. GRACE & CO., ET AL.), filed in 1992, in the Court of Common Pleas for Hampton County, South Carolina, on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of the other named defendants, other than buildings subject to the class action lawsuit described above and any building owned by the federal or any state government. In July 1994, the claims of most class members in ANDERSON MEMORIAL HOSPITAL, ET AL., V. W. R. GRACE & CO., ET AL. were dismissed due to a ruling that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision. In December 1995, Grace entered into an agreement to settle the claims under PRINCE GEORGE CENTER, INC. V. U.S. GYPSUM COMPANY, ET AL., a class action covering all commercial buildings in the U.S. leased, in whole or in part, to the U.S. government on or after May 30, 1986. The terms of the settlement agreement (which were approved by the Court of Common

Pleas of Philadelphia County in July 1996) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

Through year-end 1996, approximately 11,800 personal injury lawsuits involving 27,400 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were

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not involved), and approximately 30,500 such suits involving 66,200 claims were disposed of for a total of \$186 million (see "Insurance Litigation" below).

In 1991, the Judicial Panel on Multi-District Litigation consolidated in the U.S. District Court for the Eastern District of Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the U.S. federal courts, including approximately 7,000 cases then pending against Grace; 3,600 new cases involving 7,200 claims against Grace have subsequently been added to the consolidated cases. To date, no action has been taken by the court handling the consolidated cases that would indicate whether the consolidation will affect Grace's cost of disposing of these cases or its defense costs.

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Grace has settled with and been paid by its primary insurance carriers with respect to both property damage and personal injury cases and claims. With one minor exception, Grace also has settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with many excess insurance carriers that wrote policies available for personal injury claims. Grace is currently in litigation with certain remaining excess insurance carriers whose policies generally represent layers of coverage Grace has not yet reached. Such policies are believed by Grace to be available for asbestos-related personal injury lawsuits. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

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Grace's aggregate accrual for asbestos liabilities at December 31, 1996 was \$994.1 million; this amount reflects all asbestos-related property damage and personal injury cases and claims then pending (except for one property damage case as to which liability is not yet estimable because Grace has not yet been able to obtain sufficient information through discovery proceedings), as well as personal injury claims expected to be filed through 2001. Grace's ultimate exposure with respect to its asbestos-related cases and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. At December 31, 1996, Grace had recorded a receivable of \$331.3 million, the amount Grace estimated to be the probable recovery from its insurance carriers with respect to pending and projected asbestos cases and claims. A May 1994 decision of the U.S. Court of Appeals for the Second Circuit limited the amount of insurance coverage available to Grace with respect to property damage cases. Because Grace's insurance covers both property damage and personal injury cases and claims, the

May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury claims. However, in Grace's opinion (which is not based on a formal opinion of counsel), it is probable that recoveries from its insurance carriers, along with other funds, will be available to satisfy the property damage and personal injury cases and claims pending at year-end 1996, as well as personal injury claims expected to be filed in the foreseeable future. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a

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material adverse effect on its consolidated financial position.

See "Insurance Litigation" below and Note 2 to the Consolidated Financial Statements for additional information.

ENVIRONMENTAL PROCEEDINGS. Grace (together with certain other companies) has been designated a "potentially responsible party" ("PRP") by the U.S. Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 1996, proceedings were pending with respect to approximately 30 sites as to which Grace has been designated a PRP. Federal law provides that all PRPs may be held jointly and severally liable for the costs of investigating and remediating a site. Grace also is conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

In November 1995, Grace received a letter from the U.S. Department of Energy ("DOE") inquiring as to Grace's willingness to contribute to the continued cleanup of a former Grace property located in Wayne, New Jersey. The letter asserted that Grace has a legal duty to pay for the cleanup and that the total cost of the cleanup may exceed \$100 million. The operations conducted by Grace at the Wayne site (from 1955 to 1970) included work done on radioactive materials under contract with the U.S. government. In 1975, the U.S. Nuclear Regulatory Commission inspected the site, concluded that it was decontaminated in accordance with applicable regulations and released it for unrestricted use. In 1984, pursuant to a request from the DOE, Grace transferred the Wayne property to the DOE and made a cash payment as a contribution towards the DOE's cleanup efforts at the site, which was acknowledged by the DOE as fulfilling any obligation Grace had to contribute to DOE's cleanup effort, while preserving the rights and liabilities of the parties under other existing applicable laws. Grace believes that the resolution of the DOE's claim will not have a material adverse effect on its consolidated financial position.

In March 1993, an action was filed in the U.S. District Court for the Southern District of Texas against Grace Drilling Company, a subsidiary of Grace, the business and assets of which have since been sold, and several other defendants, for alleged violations of the Clean Water Act and the Rivers and Harbors Act (U.S. V. FINA OIL AND CHEMICAL CO., ET AL.). The government alleged that seagrasses and seabeds around a drilling rig operated by Fina Oil and Chemical Co. were damaged in connection with the placing, servicing and removal of the rig. In

February 1997, the U.S. District Court approved a decree under which Grace agreed to pay \$700,000 in penalties and \$1.6 million towards a restoration project to settle this action, all of which is expected to be paid by Grace's insurance carriers on its behalf.

Grace is a party to additional proceedings involving federal, state and/or local government agencies and private parties regarding Grace's compliance with environmental laws and regulations. These proceedings are not expected to result in significant sanctions or in any material liability. However, Grace may incur material liability in connection with future actions of governmental agencies and/or private parties

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relating to past or future practices of Grace with respect to the generation, storage, handling, discharge or disposition of hazardous wastes and other materials.

Grace believes that the liabilities for environmental remediation costs, including costs relating to environmental proceedings, that have been recorded in the Consolidated Financial Statements are adequate. In addition, Grace is presently involved in litigation with its insurance carriers seeking to hold them responsible for certain amounts for which Grace may be held liable with respect to such costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive in connection therewith, is presently uncertain. However, Grace believes that the resolution of pending environmental proceedings will not have a material adverse effect on its consolidated financial position, results of operations or liquidity. For further information, see "Environmental, Health and Safety Matters" under Item 1 above and "Management's Discussion and Analysis of Results of Operations and Financial Condition."

INSURANCE LITIGATION. Grace is involved in litigation with certain of its insurance carriers with respect to asbestos-related insurance claims and environmental liabilities. The relief sought by Grace in these actions would provide insurance that would partially offset Grace's estimated exposure with respect to amounts previously expended, and that may be expended in the future, by Grace to defend claims, satisfy judgments and fund settlements. Grace has settled all of its asbestos-related insurance coverage actions, with the exception of *MARYLAND CASUALTY CO. V. W. R. GRACE & CO.*, pending in the U.S. District Court for the Southern District of New York. In April 1996, as a result of rulings in this action favorable to Grace with respect to its asbestos-related property damage liabilities, the insurers agreed to the entry of summary judgment in favor of Grace; however, the insurers have stated that they intend to appeal the District Court's rulings. The District Court has not yet addressed Grace's claims for insurance coverage for its asbestos-related personal injury liabilities. Grace's only environmental insurance coverage action is pending in the U.S. District Court for the Southern District of New York and is also styled *MARYLAND CASUALTY CO. V. W. R. GRACE & CO.* See Note 2 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" for additional information.

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Prior to 1993, Grace received from insurance carriers asbestos-related payments totaling \$97.7 million, the majority of which represented the aggregate remaining obligations owed to Grace by those carriers for primary-level insurance coverage written for the period June 30, 1962 through June 30, 1987. In 1993 and 1994, Grace settled with insurance carriers for a total of \$300.2 million (portions of which were paid or will be paid in subsequent years), in reimbursement for amounts expended by Grace in connection with asbestos-related litigation. In 1995, Grace settled with a primary-level insurer for \$100 million, and with other insurers for a total of \$200.3 million, including future payments of approximately \$70 million. In 1996, Grace settled with additional excess-level insurers for a total of \$110.5 million

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(including \$19.2 million to be received over the next five years) with respect to both products liability and other coverage. As a result of these settlements, Grace's asbestos-related insurance claims have been dismissed as to the primary-level product liability insurance coverage previously sold by the relevant insurers to Grace, as well as to many of Grace's excess-level liability insurers. However, litigation continues in New York federal court as to certain excess-level carriers that have not settled.

FUMED SILICA PLANT LITIGATION. In 1993, Grace initiated legal action in the Belgian courts against the Flemish government to recover losses resulting from the closing of Grace's fumed silica plant in Puurs, Belgium. Grace is seeking damages in excess of four billion Belgian francs (approximately \$126.1 million at the December 31, 1996 exchange rate), plus interest and lost profits. This claim was dismissed at the trial court level and is now being appealed by Grace. The trial court also determined that Grace should repay approximately 239 million Belgian francs (approximately \$7.5 million at the December 31, 1996 exchange rate), plus interest, to the Flemish government for previously received investment grants; this decision is also being appealed by Grace. In July 1996, Grace received a favorable arbitration ruling, under which the engineering company responsible for the design and construction of the fumed silica plant was ordered to pay damages to Grace; the damage award is not material to Grace.

U.S. JUSTICE DEPARTMENT LAWSUIT. The U.S. Justice Department has intervened in a QUI TAM lawsuit, originally filed in June 1995, pending in the U.S. District Court for the Northern District of California (UNITED STATES EX REL. ROBERT COSTA AND RONALD THORNBURG, ET AL., V. BAKER & TAYLOR, INC., ET AL.). The complaint in this lawsuit alleges that Baker & Taylor Books, a book wholesaler sold by Grace in 1992, overcharged public schools, libraries and federal agencies during the last ten years, including the period during which Baker & Taylor Books was owned by Grace. Grace, Baker & Taylor, Inc. (the entity that currently operates Baker & Taylor Books) and one of the current shareholders of Baker & Taylor, Inc. have been named as defendants. The lawsuit seeks unspecified damages, punitive damages and civil penalties, as well as attorneys' fees and expenses and such other relief as the Court may deem proper. At this time, Grace is unable to determine the liability, if any, to which it may be subject as a result

service debt. Also, it is not subject to distortion (as traditional debt/equity or debt/capital ratios are) following a major share repurchase program such as those Grace has executed. At the targeted debt/EBITDA level of 1.6 to 2.0, Grace benefits from the tax advantages of debt financing on its overall weighted average cost of capital while retaining the financial flexibility to invest in the continued growth of its core businesses. Grace believes it can safely exceed its target leverage range on a short-term basis to meet its investment needs. The cash received and to be received from divestments is being used to reduce debt and repurchase shares to bring the capital structure within the target range. At December 31, 1996, the debt/EBITDA ratio was 2.3, outside the target range primarily due to the timing of the share repurchases ahead of cash divestment proceeds. It is expected that the ratio will be within the target range in 1997.

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In May 1996, Grace entered into a revolving credit agreement, expiring May 1997, providing for total borrowings of \$1.85 billion, and terminated three previous agreements providing for total borrowings of \$850 million. During the fourth quarter of 1996, Grace reduced the borrowings available under this new credit agreement to \$650 million, reflecting the completion of the NMC transaction. In addition, Grace continues to have \$350 million available under a separate long-term facility expiring on September 1, 1999. Thus, Grace had committed borrowing facilities totaling \$1.0 billion, of which \$471.3 million was available, at the end of 1996.

In October 1996, Grace announced that it expected to divest four noncore businesses by late 1996 or 1997. The businesses to be sold were Grace's cocoa business, Amicon, TEC Systems and Grace's specialty polymers business. As noted above, in December 1996, Grace completed the sale of Amicon and announced that it had entered into a definitive agreement to sell its cocoa business. In February 1997, Grace completed the sale of the cocoa business and entered into an agreement to sell its specialty polymers business. Grace expects to complete the sale of its specialty polymers business in the second quarter of 1997 and the sale of TEC Systems in 1997.

ASBESTOS-RELATED MATTERS

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products. In 1996, Grace paid \$2.1 million for the defense and disposition of asbestos-related property damage and personal injury litigation, net of amounts received under settlements with insurance carriers. During the fourth quarter of 1996, Grace recorded a noncash pretax charge of \$229.1 million (\$148.9 million after-tax), primarily to reflect the estimated costs of defending against and disposing of personal injury claims expected to be filed through 2001. The estimated costs used to determine the amount of this charge have not been discounted to their present values, and the time period over which the associated cash is actually expended is likely to extend beyond 2001. The balance sheet at year-end 1996 includes a receivable of \$331.3 million due from insurance carriers. Grace also has recorded notes receivable of \$55.9 million (\$48.5 million after discounts) for amounts to be received from 1997 to 2001 pursuant to settlement agreements previously entered into with insurance carriers.

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Although the total amounts to be paid in 1997 with respect to asbestos-related claims (after giving effect to payments to be received from insurance carriers), cannot be precisely estimated, Grace expects that it will be required to expend approximately \$75-\$100 million (pretax) in 1997 to defend against and dispose of such claims (after giving effect to anticipated insurance recoveries). The amounts with respect to the probable cost of defending against and disposing of asbestos-related claims and probable recoveries from insurance carriers represent estimates and are on an undiscounted basis; the outcomes of such claims cannot be predicted with certainty. See Note 2 to the Consolidated Financial Statements for further information concerning asbestos-related lawsuits and claims.

ENVIRONMENTAL MATTERS

Grace is subject to loss contingencies resulting from environmental laws and regulations. Worldwide expenses of continuing operations related to the operation and maintenance of environmental facilities and the disposal of hazardous and nonhazardous wastes totaled \$44.5 million in 1996, \$42.6 million in 1995 and \$35.0 million in 1994. Such costs are estimated to be \$45.0 million in 1997 and \$47.0 million in 1998. In addition, worldwide capital expenditures for continuing operations relating to environmental protection totaled \$17.1 million in 1996, compared to \$14.9 million and \$21.5 million in 1995 and 1994, respectively. Capital expenditures to comply with environmental initiatives in future years are estimated to be \$13.0 million in 1997 and \$12.0 million in 1998. Grace also has incurred costs to remediate environmentally impaired sites. These costs were \$20.3 million in 1996, \$31.3 million in 1995 and \$30.8 million in 1994. These amounts have been charged against previously established reserves. Future cash outlays for remediation costs are expected to total \$23.0 million in 1997 and \$26.0 million in 1998. Expenditures have been funded from internal sources of cash and are not expected to have a significant effect on liquidity.

Grace accrues for anticipated costs associated with investigatory and remediation efforts where an assessment has indicated that a loss is probable and can be reasonably estimated. In the fourth quarter of 1995 and the first quarter of 1994, Grace recorded pretax provisions of \$77.0 million and \$40.0 million (\$50.0 million and \$26.0 million after-tax), respectively. The 1995 provision related principally to increased cost estimates associated with five former manufacturing sites. At December 31, 1996, Grace's liability for environmental investigatory and remediation costs related to continuing and discontinued operations totaled \$256.4 million, as compared to \$280.3 million at December 31, 1995. These accruals do not take into account any discounting for the time value of money. Additionally, Grace is in litigation with certain excess insurance carriers regarding the applicability of the carriers' policies to environmental remediation costs; given the uncertainties inherent in this litigation, Grace has not recorded a receivable with respect to such insurance coverage (except in one instance where a settlement with a carrier has been reached).

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Grace's environmental liabilities are reassessed whenever circumstances become better defined and/or remediation efforts and their costs can be better estimated. These liabilities are currently evaluated quarterly, based on available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site and the apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) and/or new sites are assessed and costs can be reasonably estimated, Grace will continue to review and analyze the need for adjustments to the recorded accruals. However, Grace believes that it is adequately reserved for all probable and estimable environmental exposures.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibits on page F-1 of the Financial Supplement.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

PRICE WATERHOUSE LLP
One East Broward Boulevard
Ft. Lauderdale, FL 33301

February 3, 1997

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF W. R. GRACE & CO.

In our opinion, the consolidated financial statements appearing on pages 14

through F-24 of this report present fairly, in all material respects, the

financial position of W. R. Grace & Co. and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by

currencies and, from time to time, net investments in foreign subsidiaries. Gains or losses on hedges of transactional exposures are recorded as adjustments to gains or losses on the underlying transactions. Gains or losses on hedges of foreign currency-denominated firm commitments are deferred and recorded as part of the basis in the transaction in the period in which the transaction is consummated. Gains and losses on forward contracts that hedge net investments in foreign subsidiaries are recorded in the cumulative translation adjustments account in shareholders' equity. Cash flows related to foreign currency forward and option contracts are classified within operating activities in the Consolidated Statement of Cash Flows.

OTHER INCOME Other income consists of interest income, equity in earnings of affiliated companies, gains on sales of investments and other items.

EARNINGS PER SHARE Earnings per share are computed on the basis of the weighted average number of common shares outstanding.

2. ASBESTOS AND RELATED INSURANCE LITIGATION

Grace is a defendant in property damage and personal injury lawsuits

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relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related lawsuits in the future. Grace was a defendant in approximately 41,500 asbestos-related lawsuits at December 31, 1996 (31 involving claims for property damage and the remainder involving approximately 91,500 claims for personal injury), as compared to approximately 40,800 lawsuits at December 31, 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury).

PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure. Thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of cases in the future. Information regarding product identification, the amount of product in the building, the age, type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide meaningful guidance as to the range of potential costs. Some of this information is not yet available in the property damage cases currently pending against Grace. Accordingly, it is not possible to estimate with precision the costs of defending against and disposing of these cases. In accordance with SFAS No. 5, Grace has recorded an accrual for all existing property damage cases for which sufficient information is available to form a range of estimated

exposure. At December 31, 1996 and 1995, estimates were not accrued for one and four cases, respectively, due to insufficient information. Grace believes that the number of property damage cases to be filed in the future and the costs associated with these filings are not estimable.

Through December 31, 1996, 135 asbestos property damage cases were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in nine cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in seven cases for a total of \$60.3 (none of which is on appeal); and 186 property damage cases were settled for a total of \$450.5. Property damage case activity for 1996 and 1995 is as follows:

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December 31,	1996	1995
Cases outstanding, beginning of year	47	65
New cases filed	1	5
Settlements	(9)	(18)
Dismissals	(5)	(4)
Judgments, net	(3)	(1)
--	--	
Cases outstanding, end of year	31	47

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PERSONAL INJURY LITIGATION

Personal injury claims are generally similar to each other (differing primarily in the type of asbestos-related illness allegedly suffered by the plaintiff). However, Grace's estimated liability for such claims is influenced by numerous variables, including the solvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the filings are made, and the defense and disposition costs associated with these claims.

Through December 31, 1996, approximately 11,800 asbestos personal injury lawsuits involving 27,400 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 30,500 lawsuits involving 66,200 claims were disposed of for a total of \$186.0. Personal injury claim activity for 1996 and 1995 is as follows:

December 31,	1996	1995
Claims outstanding, beginning of year	92,436	67,889
New claims	30,274	34,306
Claims under amended complaints (1)	8,298	2,120
Settlements	(36,630)	(9,585)
Dismissals	(2,866)	(2,288)
Judgments, net	(1)	(6)

Claims outstanding, end of year	91,511	92,436
30		

(1) Of the 8,298 claims shown, approximately 1,500 were filed under amended complaints in 1996. The remaining claims relate to disputed filings that were submitted to local counsel in prior years but were not reported to Grace until 1996, when a majority of such claims was settled.

ASBESTOS-RELATED LIABILITY

Subject to the factors discussed above, Grace estimates that its probable liability is as follows with respect to the defense and disposition of asbestos property damage and personal injury cases and claims at December 31, 1996 and 1995:

December 31, 1996(1)	1995(2)	
Current liability for asbestos-related litigation (3)	\$135.0	\$100.0
Noncurrent liability for asbestos-related litigation	859.1	722.3
Total asbestos-related liability (4)	\$994.1	\$822.3

(1) Reflects property damage and personal injury cases and claims pending at December 31, 1996, as well as personal injury claims expected to be filed through 2001. See discussion below.

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(2) Reflects property damage and personal injury cases and claims pending at December 31, 1995, as well as personal injury claims expected to be filed through 1998. See discussion below.

(3) Included in "other current liabilities" in the Consolidated Balance Sheet.

(4) Excludes one property damage case at December 31, 1996 as to which the liability is not yet estimable because Grace has not yet been able to obtain sufficient information through discovery proceedings.

Prior to 1995, Grace recorded noncash charges to reflect its estimate of the costs of defending against and disposing of the asbestos property damage and personal injury cases and claims then pending. In the fourth quarter of 1995, Grace determined that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the three-year period 1996-1998 and recorded a noncash charge of \$260.0 (\$169.0 after-tax), primarily to reflect such anticipated filings. Based on certain developments during 1996, Grace determined in the 1996 fourth quarter that it had adequate experience to reasonably estimate the costs of defending against and disposing of asbestos personal injury claims to be filed during the five-year period 1997-2001 and recorded a noncash charge of \$348.4 (\$226.4 after-tax), primarily to reflect such anticipated filings. The 1996 provision also reflects

increases in the estimated costs of defending against and disposing of personal injury claims pending at year-end 1996, and the 1995 provision also reflects increases in the estimated costs of defending against and disposing of certain property damage cases pending at year-end 1995 and personal injury claims filed during 1995. However, as discussed above, these estimates are not necessarily indicative of actual costs. Based on the factors discussed above, Grace does not believe that it can reasonably estimate the number and defense and disposition costs of personal injury claims that may be brought against Grace after 2001. The accruals recorded for future cases and claims are not discounted to their present values; further, the actual cash payments related to future cases and claims are expected to continue beyond 2001.

ASBESTOS-RELATED INSURANCE RECEIVABLE

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. The following tables display the activity in Grace's notes receivable and asbestos-related insurance receivable accounts during 1996 and 1995:

31

1996 1995

NOTES RECEIVABLE

Notes receivable from insurance carriers, beginning of year, net of discount of \$11.6 in 1996 (1995 - \$15.0)	\$118.4 \$ 187.0
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Proceeds from asbestos-related insurance

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settlements	(93.3) (127.0)
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Current year asbestos-related insurance

settlements	19.2 55.0
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Current year amortization, net

4.2 3.4

Notes receivable from insurance carriers at

year-end, net of discount of \$7.4 (1995 - \$11.6) (1)	\$ 48.5 \$ 118.4
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INSURANCE RECEIVABLE

Asbestos-related insurance receivable, beginning of year	\$321.2 \$ 512.6
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Proceeds from asbestos-related insurance

settlements	(91.2) (130 3)
-------------	----------------

Adjustments to asbestos-related insurance

receivable (2)	119.3 (15.0)
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Transfers from asbestos-related insurance

receivable to notes receivable from insurance carriers	(19.2) (55.0)
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Other	1.2	8.9
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Asbestos-related insurance receivable, end of year (1)	\$331.3	\$ 321.2
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Total amounts due from insurance carriers	\$379.8	\$ 439.6
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(1) See Note 7 for classification between current portion (classified in "notes and accounts receivable, net") and noncurrent portion (classified in "other assets") in the Consolidated Balance Sheet.

(2) Reflects noncash adjustments to receivable in conjunction with increases in asbestos-related liability and lower than estimated proceeds from settlements with insurance carriers caused by reduced coverage available for certain years. See discussion below.

Notes receivable from insurance carriers represent amounts due from insurance carriers in reimbursement for amounts previously paid by Grace in defending and disposing of asbestos cases and claims; payments under these notes will be received through 2001. These notes do not bear stated interest rates and, therefore, have been discounted using a weighted average interest rate of 6.7% (which Grace estimates as its borrowing rate for the terms of the notes). Installments due in 1997 are classified as "current" in the Consolidated Balance Sheet.

The asbestos-related insurance receivable at December 31, 1996 predominantly represents amounts expected to be received from carriers under settlement agreements in reimbursement for defense and disposition costs to be paid by Grace in the future in connection with property damage and personal injury cases and claims pending at

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year-end 1996 and personal injury claims expected to be filed through 2001 (through 1998 as of December 31, 1995)

In the fourth quarter of 1996, Grace recorded a noncash pretax benefit of \$119.3 (\$77.5 after-tax), primarily representing the additional insurance proceeds Grace expects to receive in reimbursement for the cash outflows associated with personal injury claims expected to be filed against Grace through 2001.

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As a result of fourth quarter 1995 insurance settlements and a reassessment of its insurance receivable, Grace recorded a noncash net pretax charge of \$15.0 (\$9.7 after-tax) during the fourth quarter of 1995. This charge reflected a reduction in the receivable, primarily due to lower than estimated proceeds from settlements with insurance carriers (caused by the reduced coverage available for certain years) and a discount on notes receivable received in connection with prior settlements, partially offset by an increase in expected future reimbursements of costs to defend against and dispose of property damage cases pending at year-end 1995 and personal injury claims to be filed through 1998.

Certain of Grace's insurance carriers have become insolvent. From time

to time, Grace has been successful in collecting funds from insolvent carriers. However, since recovery from these carriers is not probable, Grace has not accrued a related receivable

INSURANCE LITIGATION

Grace has settled with and been paid by its primary insurance carriers with respect to both property damage and personal injury cases and claims. With one minor exception, Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with many excess insurance carriers that wrote policies available for personal injury claims. Grace is currently in litigation with certain remaining excess insurance carriers whose policies generally represent layers of coverage Grace has not yet reached and, therefore, are not reflected in the asbestos-related insurance receivable referred to above. Such policies are believed by Grace to be available for asbestos-related personal injury lawsuits. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

In September 1993 the U.S. Court of Appeals for the Second Circuit ruled that, under New York law (which governs a significant portion of the policies that provide Grace's asbestos-related insurance coverage), coverage for asbestos property damage cases is triggered based on the date of installation of asbestos-containing materials. This decision was initially reversed in the fourth quarter of 1993 but subsequently confirmed in the second quarter of 1994. As a result of this decision (which had the effect of reducing the amount of insurance coverage available to Grace with respect to asbestos lawsuits) Grace recorded a noncash pretax charge of \$316.0 (\$200.0 after-tax) in the second quarter of 1994.

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Grace's ultimate exposure with respect to its asbestos-related cases and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. In Grace's opinion, it is probable that recoveries from its insurance carriers (including amounts reflected in the receivable discussed above), along with other funds, will be available to satisfy the property damage and personal injury cases and claims pending at December 31, 1996, as well as personal injury claims expected to be filed in the foreseeable future. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated financial position.

3. ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS

During 1996, Grace acquired a manufacturer of flexible packaging, a producer of can coatings and closure sealants for the rigid container industry, and kidney dialysis centers purchased by NMC prior to

(including office and other service facilities) throughout the world, some of which are shared by two or more of Grace's product lines. Grace considers its major operating properties to be in good operating condition and suitable for their current use. Although Grace believes that, after taking planned expansion into account, the productive capacity of its plants and other facilities is generally adequate for current operations and foreseeable growth, it conducts ongoing, long-range forecasting of its capital requirements to assure that additional capacity will be available when and as needed (see information regarding Grace's capital expenditures in "Management's Discussion and Analysis of Results of Operations and Financial Condition" and on page F-27 of the Financial Supplement). Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity.

Additional information regarding Grace's properties is set forth in Item 1 above and in Notes 1, 9 and 12 to the Consolidated Financial Statements in the Financial Supplement.

ITEM 3. LEGAL PROCEEDINGS.

Asbestos Litigation. Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related

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lawsuits in the future. Grace was a defendant in approximately 40,800 asbestos-related lawsuits at year-end 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury), as compared to approximately 38,700 lawsuits at year-end 1994 (65 involving claims for property damage and the remainder involving approximately 67,900 claims for personal injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through year-end 1995, 129 asbestos property damage cases were dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 10 cases (excluding cases settled following appeals of judgments in favor of Grace and a case in which the plaintiff was granted a new trial on appeal); Grace was held liable for a total of \$74.7 million in 7 cases (2 of which are on appeal); and 177 property damage suits and claims were settled for a total of \$421.8 million.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1995 were the following class actions: (1) a Pennsylvania state court action (Prince George Center, Inc. v. U.S. Gypsum Company, et al., Court of Common Pleas of Philadelphia County),

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certified in 1992, covering all commercial buildings in the United States leased in whole or in part to the United States government on or after May 30, 1986; (2) an action, conditionally certified by the United States Court of Appeals for the Fourth Circuit in 1993 and pending in the United States District Court for the District of South Carolina, covering all public and private colleges and universities in the United States whose buildings contain asbestos materials (Central Wesleyan College, et al. v. W. R. Grace, et al.); and (3) a purported class action (Anderson Memorial Hospital, et al. v. W. R. Grace & Co., et al.), filed in 1992 in the Court of Common Pleas for Hampton County, South Carolina, on behalf of all entities that own, in whole or in part, any building containing asbestos materials manufactured by Grace or one of the other named defendants, other than buildings subject to the class action lawsuits described above and any building owned by the federal or any state government. In December 1995, Grace entered into an agreement to settle the claims under Prince George Center, Inc. v. U.S. Gypsum Company, et al. The terms of the settlement agreement (which is subject to judicial review and approval after class members have an opportunity to be heard) are not expected to have a significant effect on Grace's consolidated results of operations or financial position. In July

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1994, the claims of most class members in Anderson Memorial Hospital, et al., v. W. R. Grace & Co., et al. were dismissed due to a ruling that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision. In August 1994, Grace entered into an agreement to settle In re: Asbestos School Litigation, a nationwide class action brought in 1983 in the United States District Court for the Eastern District of Pennsylvania on behalf of all public and private elementary and secondary schools in the United States that contain friable asbestos materials (other than schools that "opted out" of the class). The terms of the settlement agreement (which were approved by the District Court in September 1995) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

The remaining asbestos lawsuits pending at year-end 1995 involved claims for personal injury. Through year-end 1995, approximately 10,100 personal injury lawsuits involving 24,500 claims were dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 23,700 such suits involving 29,600 claims were disposed of for a total of \$109 million (see "Insurance Litigation" below). However, as a result of various trends (including the insolvency of other former asbestos producers and cross-claims by co-defendants in asbestos personal injury lawsuits), the costs incurred in disposing of such lawsuits in the past may not be indicative of the costs of disposing of such lawsuits in the future.

In 1991, the Judicial Panel on Multi-District Litigation consolidated in the United States District Court for the Eastern District of

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Pennsylvania, for pre-trial purposes, all asbestos personal injury cases pending in the federal courts, including approximately 7,000 cases then pending against Grace; 3,600 new cases involving 7,200 claims against Grace have subsequently been added to the consolidated cases. To date, no action has been taken by the court handling the consolidated cases that would indicate whether the consolidation will affect Grace's cost of disposing of these cases or its defense costs.

Grace's ultimate exposure with respect to its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. As discussed below under "Insurance Litigation," a May 1994 decision of the U.S. Court of Appeals for the Second Circuit limited the amount of insurance

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coverage available with respect to property damage lawsuits and claims. Because Grace's insurance covers both property damage and personal injury lawsuits and claims, the May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury lawsuits and claims. However, in Grace's opinion, it is probable that recoveries from its insurance carriers, along with other funds, will be available to satisfy the property damage and personal injury lawsuits and claims pending at year-end 1995, as well as personal injury lawsuits and claims expected to be filed through 1998. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated results of operations or financial position. See "Insurance Litigation" below and Note 2 to the Consolidated Financial Statements in the Financial Supplement for additional information.

Environmental Proceedings. Grace (together with other companies) has been designated a "potentially responsible party" ("PRP") by the United States Environmental Protection Agency ("EPA") with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 1995, proceedings were pending with respect to approximately 30 sites as to which Grace has been designated a PRP. Federal law provides that all PRPs may be held jointly and severally liable for the costs of investigating and remediating a site. Grace is also conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

In addition, in 1989, Hatco Corporation ("Hatco"), which purchased the assets of a Grace chemical business in 1978, instituted a lawsuit against Grace in the United States District Court for the District of New Jersey (Hatco Corporation v. W. R. Grace & Co.-Conn.) seeking recovery of cleanup costs for waste allegedly generated at a New Jersey facility during the period of Grace's ownership. Grace subsequently filed a lawsuit against its insurance carriers seeking indemnity against any damages assessed against Grace in the underlying lawsuit, as well as defense costs. In decisions rendered during 1993, the

District Court ruled that Grace is responsible for a substantial portion of Hatco's costs. In July 1995, the United States Court of

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Appeals for the Third Circuit reversed the decisions of the District Court and remanded the lawsuit to the District Court for further proceedings. Specifically, the Court of Appeals (a) reversed the District Court's ruling that Grace is responsible for a substantial portion of Hatco's costs and (b) ruled that in the remand proceeding the burden of proof would be on Hatco to establish that it had not released Grace from the asserted liabilities. In an earlier

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decision, the District Court had resolved, in a manner favorable to Grace, certain legal issues regarding Grace's right to insurance coverage; however, the ultimate liability of Grace's insurance carriers will be determined at trial, should a trial be necessary after the remand proceedings described above. Remediation costs, and Grace's share, if any, of such costs, will be determined once ongoing site investigations are completed and a remediation plan is approved by the State of New Jersey. As a result of the above factors, the amount that Grace may be required to pay to Hatco, if any (which Grace expects will be partially offset by recoveries from insurance carriers), cannot be reliably estimated at this time.

In November 1995, Grace received a letter from the United States Department of Energy ("DOE") inquiring as to Grace's willingness to contribute to the continued cleanup of a former Grace property located in Wayne, New Jersey. The letter asserted that Grace has a legal duty to pay for the site's cleanup and that the total cost of cleanup may exceed \$100 million. The operations conducted by Grace at the Wayne site (from 1955 to 1970) included work done on radioactive materials under contract with the United States government for the "Manhattan Project" and with the United States Atomic Energy Commission. In 1975, the United States Nuclear Regulatory Commission inspected the site, concluded that it was decontaminated in accordance with applicable regulations and released it for unrestricted use. In 1984, pursuant to a request from the DOE, Grace transferred the Wayne property to the DOE and made a cash payment as a contribution towards the DOE's cleanup efforts at the site, which was acknowledged by the DOE as fulfilling any obligation Grace had to contribute to DOE's cleanup effort. As a result of these transactions, Grace believes it has no further obligation to contribute to the DOE's cleanup activities.

In March 1993, an action was filed in the United States District Court for the Southern District of Texas against Grace Drilling Company, a subsidiary of the Company the business and assets of which have since been sold, and several other defendants, for alleged violations of the Clean Water Act and the Rivers and Harbors Act (U.S. v. Fina Oil and Chemical Co., et al.). The government alleges that seagrasses and seabeds around a drilling rig operated by Fina Oil and Chemical Co. were damaged in connection with the placing, servicing and removal of the rig. The government is seeking injunctive relief requiring the defendants to restore the damaged areas and to compensate for temporary

loss of the seagrass habitat, as well as civil penalties of up to \$25,000 per day of violation and attorneys' fees.

Grace is also a party to other proceedings involving federal, state

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and/or local government agencies and private parties

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regarding Grace's compliance with environmental laws and regulations. These proceedings are not expected to result in significant sanctions or in any material liability. As a voluntary participant in the EPA Toxic Substances Control Act Compliance Audit Program, Grace agreed to undertake a corporate-wide audit of compliance with Section 8 of such Act and to pay a stipulated civil penalty for each study or report that EPA alleges should have been, but was not, submitted to the EPA as required under such Section. Although final review of the audit is not complete, Grace believes it will be required to pay the EPA penalties aggregating from \$250,000 to \$400,000 for information discovered in the course of the audit. In addition, Grace has voluntarily reported to the EPA violations of certain notification and related requirements under such Act, and penalties may be assessed against Grace in connection therewith; however, the amount of such penalties cannot be determined at this time.

Grace believes that the liabilities for environmental remediation costs that have been recorded in the Consolidated Financial Statements are adequate. In addition, Grace is presently involved in litigation with its insurance carriers seeking to hold them responsible for certain amounts for which Grace may be held liable with respect to such costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive in connection therewith, is presently uncertain. For further information, see Note 12 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement.

Insurance Litigation. Grace is involved in litigation with certain insurance carriers with respect to asbestos-related claims and environmental liabilities. Its asbestos-related insurance actions consist of a case styled Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the Southern District of New York; Dayton Independent School District v. United States Mineral Products Company, et al., pending in the United States District Court for the Eastern District of Texas; Independent School District No. 197, et al. v. W. R. Grace & Co. and Accident & Casualty Insurance Co., et al., pending in the First Judicial District in Minnesota; The County of Hennepin v. Central National Insurance Company, et al., pending in the Fourth Judicial District in Minnesota; Ecolab, Inc. v. Central National Insurance Co., pending in the District Court for Ramsey County, Minnesota; and American Employers' Insurance Co., American Re-Insurance Co., Commercial Union Insurance Co., and Unigard Security Insurance Co. v. W. R. Grace & Co., Continental Casualty Co., and Maryland Casualty Co., which is pending

in the New York state courts; Grace's insurance actions relating to environmental liabilities consist of

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Maryland Casualty Co. v. W. R. Grace & Co., pending in the United States District Court for the District of New Jersey. The relief sought by Grace in these actions would provide insurance to partially offset Grace's estimated exposure with respect to the actions' subject matter, including amounts previously expended by Grace to defend claims and satisfy judgments and settlements (see Note 2 to the Consolidated Financial Statements in the Financial Supplement). The factual bases underlying these actions are the nature of the underlying asbestos-related and environmental claims, the language of the insurance policies sold by the carriers to Grace and the drafting history of those policies.

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States District Court for the Southern District of New York; and Hatco Corp. v. W. R. Grace & Co.-Conn., pending in the United States District Court for the District of New Jersey. The relief sought by Grace in these actions would provide insurance to partially offset Grace's estimated exposure with respect to the actions' subject matter, including amounts previously expended by Grace to defend claims and satisfy judgments and settlements (see Note 2 to the Consolidated Financial Statements in the Financial Supplement). The factual bases underlying these actions are the nature of the underlying asbestos-related and environmental claims, the language of the insurance policies sold by the carriers to Grace and the drafting history of those policies.

In 1991 (in an asbestos-related case involving Maryland Casualty Co.), the United States District Court for the Southern District of New York determined that coverage for property damage is triggered by the "discovery of damage" during the period covered by the relevant policy. In September 1993, the United States Court of Appeals for the Second Circuit reversed the District Court's ruling as to a "discovery of damage" trigger for such claims and, instead, ruled that coverage for these claims is triggered based on the date of installation of asbestos-containing materials. In January 1994, the United States Court of Appeals for the Second Circuit granted Grace's petition for a rehearing concerning the September 1993 decision, and in May 1994, the Court issued a new decision confirming its September 1993 decision. As a result, Grace recorded net noncash charges totaling \$300 million after taxes in 1993 and 1994 to reflect the reduction in asbestos property damage insurance coverage. Subsequently, the Second Circuit refused to rehear its decision, and the United States Supreme Court denied Grace's petition for a writ of certiorari with respect to that decision.

In 1991 and 1994, a Mississippi court held that certain of Grace's excess insurance carriers are obligated to defend and indemnify Grace, determining that, for purposes of insurance coverage, damage to buildings from asbestos-containing products occurs at the time such products are put in place and that the damage continues as long as the building contains the products (referred to as a "continuous trigger"); Grace subsequently settled with each of the insurance carriers, and an appeal of the Mississippi court's decision was dismissed. In 1992, the Minnesota court referred to above reached a similar decision in interpreting Grace's insurance policies. In January 1994, the Minnesota court entered judgment against certain of Grace's carriers in the amount of \$14.2 million, but that judgment was reversed by the Minnesota Court of Appeals in January 1995. After the Minnesota Supreme Court

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denied review of this decision, the parties agreed to settlements in 1995 and early 1996.

Prior to 1993, Grace received payments totaling \$97.7 million from insurance carriers, the majority of which represented the aggregate remaining obligations owed to Grace by those carriers for primary-level

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insurance coverage written for the period June 30, 1962 through June 30, 1987. In 1993 and 1994, Grace settled with insurance carriers for a total of \$300.2 million (portions of which were paid or will be paid in subsequent years) in reimbursement for amounts expended by Grace in connection with asbestos-related litigation. In 1995, Grace settled with a primary-level insurer for \$100 million, and with other insurers for a total of \$200.3 million, including future payments of approximately \$70 million. As a result of these settlements, insurance litigations were dismissed as to the primary-level product liability insurance coverage previously sold by the relevant insurers to Grace; however, litigations continue as to certain excess-level carriers.

In a 1995 settlement included in the amounts set forth above, Grace settled with an affiliated group of excess-level carriers that had agreed to a settlement in 1993, had made a series of payments under that agreement and had subsequently notified Grace that it would no longer honor the agreement. Pursuant to the 1995 settlement, the group of carriers paid Grace \$44 million in 1995, and agreed to make additional payments totaling \$60.2 million in 1996 and 1997. Pursuant to a settlement with another group of carriers, Grace received \$26.8 million in 1995 and \$9.7 million in early 1996. Grace will also continue to receive payments under these agreements based on future cash outflows for asbestos-related litigation and claims; such payments are estimated to represent approximately \$237.3 million of the asbestos-related receivable of \$321.2 million at December 31, 1995.

See Note 2 to the Consolidated Financial Statements and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement for additional information.

Fumed Silica Plant Litigation. In 1993, Grace initiated legal action in the Belgian courts against the Flemish government to recover losses resulting from the closing of Grace's fumed silica plant in Puurs, Belgium. Grace is seeking damages in excess of four billion Belgian francs (approximately \$135.5 million at the December 29, 1995 exchange rate), plus interest and lost profits. This claim was dismissed at the trial court level and is now being appealed by Grace. The trial court also determined that Grace should repay approximately 239 million Belgian francs (approximately \$8.1 million at the December 29, 1995 exchange rate) plus

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interest to the Flemish government for previously received investment grants; this decision is also being appealed by Grace. Also pending is

an arbitration involving the engineering company that was responsible for the design and construction of the fumed silica plant. The outcome of this proceeding may affect the action filed against the Flemish government.

Shareholder Litigation. Commencing in March 1995, five lawsuits were brought against the Company and members of its Board of Directors (as well as J. P. Bolduc, who resigned as President and Chief Executive Officer and a director of the Company in March 1995) in New York State Supreme Court, New York County. These lawsuits were consolidated in

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the case entitled Weiser, et al. v. Grace, et al. The consolidated amended complaint in this lawsuit, which purports to be a derivative action (i.e., an action brought on behalf of the Company), alleges, among other things, that the individual defendants breached their fiduciary duties to the Company (a) by providing J. Peter Grace, Jr. (the Chairman and a director of the Company until his death in April 1995) with certain compensation arrangements upon his voluntary retirement as the Company's Chief Executive Officer in 1992 and (b) by approving Mr. Bolduc's severance arrangements, and that Messrs. Grace and Bolduc breached their fiduciary duties by accepting such benefits and payments. The lawsuit seeks unspecified damages, the cancellation of all allegedly improper agreements, the cancellation of the non-employee director retirement plan, the return of all remuneration paid to the present and former directors who are defendants while they were in breach of their fiduciary duties to the Company, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem appropriate.

In March 1996, two purported shareholder derivative class actions were filed in New York State Supreme Court, New York County, against the Company and Albert J. Costello, the Company's Chairman, President and Chief Executive Officer, alleging that the defendants breached their fiduciary duties to the Company's shareholders by failing to investigate and consider fully a proposal by Hercules, Incorporated to acquire or merge with Grace (Izes, etc. v. W. R. Grace & Company, et al. and Polikoff, etc. v. W. R. Grace & Company, et al.). The lawsuits seek injunctive relief ordering defendants to carry out their fiduciary duties by considering and evaluating such proposal, unspecified monetary damages, costs and counsel fees and such other relief as the Court deems proper.

Securities and Exchange Commission Investigation. The Company has been notified that the Securities and Exchange Commission has issued a formal order of investigation with respect to the

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Company's prior disclosures regarding benefits and retirement arrangements provided to J. Peter Grace, Jr., and certain matters relating to J. Peter Grace III, a son of J. Peter Grace, Jr. The Company is cooperating fully with the investigation.

NMC - OIG Investigation On October 17, 1995, NMC received five

investigative subpoenas from the Office of the Inspector General of the United States Department of Health and Human Services ("OIG"). The subpoenas call for the production of extensive documents relating to various aspects of NMC's business. A letter accompanying the subpoenas stated that they had been issued in conjunction with an investigation being conducted by the OIG, the United States Attorney for the District of Massachusetts and others, concerning possible violations of federal laws relating to health care payments and reimbursements. The five subpoenas cover the following areas: (a) NMC's corporate management, personnel and employees, organizational structure, financial information and internal communications; (b) NMC's dialysis services business, principally medical director contracts and compensation; (c)

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NMC's treatment of credit balances resulting from overpayments received under the Medicare ESRD program and its payment of supplemental medical insurance premiums on behalf of indigent patients; (d) NMC's LifeChem laboratory business, including documents relating to testing procedures, marketing, customers, competition and certain overpayments totaling approximately \$4.9 million that were received by LifeChem from the Medicare program with respect to laboratory services rendered between 1989 and 1993; and (e) NMC's Homecare Division and, in particular, information concerning the intradialytic parenteral nutrition ("IDPN") business, including billing practices related to various services, equipment and supplies and payments made to third parties as compensation for administering IDPN therapy.

NMC is cooperating with the OIG investigation and has made, and is expected to continue to make, extensive production of documents and information in response to the subpoenas. The results of the investigation and its impact, if any, cannot be predicted at this time. In the event that a U.S. government agency believes that any wrongdoing has occurred, civil and/or criminal proceedings could be instituted, and if any such proceedings were to be instituted and the outcome were unfavorable, NMC could be subject to fines, penalties and damages or could become excluded from government reimbursement programs. Any such result could have a material adverse effect on NMC's financial position or the results of operations of NMC and Grace.

Under the terms of the proposed transaction with Fresenius AG described above under "Strategic Restructuring and Other Growth

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Initiatives," any liability arising as a result of the OIG investigation would remain the responsibility of NMC.

NMC - OBRA 93 Litigation. The Omnibus Budget Reconciliation Act of 1993 ("OBRA 93") affected the payment of benefits under Medicare and employer health plans for certain eligible ESRD patients. In July 1994, the Health Care Financing Administration ("HCFA") issued an instruction to Medicare claims processors to the effect that Medicare benefits for the patients affected by OBRA 93 would be subject to a new 18-month "coordination of benefits" period. This instruction had a positive impact on NMC's dialysis revenues because, during the 18-month

coordination of benefits period, the patient's employer health plan was responsible for payment, which was generally at a rate higher than that provided under Medicare.

In April 1995, HCFA issued a new instruction, reversing its original instruction in a manner that would substantially diminish the positive effect of the initial instruction on NMC's dialysis business. Under the new instruction, no 18-month coordination of benefits period would arise, and Medicare would remain the primary payor. HCFA further proposed that its new instruction be effective retroactive to August 1993, the effective date of OBRA 93. Consequently, NMC may be required to refund payments received from employer health plans for services provided after August 1993 under HCFA's original instruction and to re-bill Medicare for the same services, which would result in a

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cumulative reduction of net revenues to NMC totaling approximately \$120 million as of December 31, 1995. Effective July 1, 1995, NMC ceased to recognize the incremental revenue realized under the original instruction, which has resulted in a material reduction in NMC's operating earnings in comparison to prior periods in which NMC recognized such incremental revenue. However, NMC continued to bill the employer health plans as primary payors through December 31, 1995, at which time NMC commenced billing Medicare for the patients affected by OBRA 93.

In May 1995, NMC filed suit in the United States District Court for the District of Columbia seeking a declaratory judgment with respect to HCFA's instructions relating to OBRA 93 (National Medical Care, Inc., et al. v. Shalala). In June 1995, the court granted NMC's motion for a preliminary injunction to preclude HCFA from retroactively enforcing its new instruction. The litigation is continuing with respect to NMC's request to permanently enjoin HCFA's new instruction, both retroactively and prospectively. While there can be no assurance that a permanent injunction will be issued, NMC believes that it will ultimately prevail in its claim that the retroactive reversal by HCFA of its original instruction

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relating to OBRA 93 was impermissible under applicable law. If HCFA's revised instruction is upheld, NMC's business, financial position and results of operations would be materially adversely affected, particularly if the revised instruction is applied retroactively.

NMC - IDPN Proceedings. NMC administers IDPN therapy to chronic dialysis patients who suffer from severe gastrointestinal malfunctions. Since late 1993, Medicare claims processors have applied medical coverage interpretations in a manner that has sharply reduced the number of IDPN claims approved for payment as compared to prior periods. NMC believes that the reduction in IDPN claims currently being paid by Medicare represents an unauthorized policy coverage change. Accordingly, NMC and other IDPN providers are pursuing various administrative and legal remedies, including administrative appeals, to address this reduction. In November 1995, NMC filed a complaint in the

United States District Court for the Middle District of Pennsylvania (NMC Homecare, Inc. v. Shalala) seeking a declaratory judgment and injunctive relief to prevent the implementation of this policy coverage change.

NMC management believes that its IDPN claims are consistent with published Medicare coverage guidelines and ultimately will be approved for payment. Such claims represent substantial accounts receivable of NMC, amounting to \$93 million as of December 31, 1995, and currently increasing at the rate of approximately \$5 million per month. If NMC is unable to collect its IDPN receivable, or if IDPN coverage is reduced or eliminated, depending on the amount of the receivable that is not collected and/or the nature of the coverage change, NMC's business, financial position and results of operations could be materially adversely affected.

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As previously reported, in May 1995 the Medicare claims processors circulated a draft coverage policy which, if implemented in the form proposed, would have limited or precluded continued coverage of parenteral and enteral nutrition ("PEN") therapies, including IDPN therapy. In March 1996, NMC received a copy of a revised final version of the new coverage policy, which is expected to become effective for services billed on and after July 1, 1996. While the new policy permits continued coverage of IDPN and other PEN therapies, and while the potential impact of the new policy is subject to further analysis, NMC believes that the new policy would make it substantially more difficult to qualify patients for future coverage by, among other things, requiring certain patients to undergo onerous and/or invasive tests in order to qualify for coverage. NMC, together with other interested parties, plans to seek to effect certain changes in the new policy, and NMC is considering changes to its patient qualification procedures in

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order to comply with the policy. However, if NMC is unable to achieve changes in the new policy, if physicians and patients fail to accept the new qualification procedures and/or if patients fail to qualify under such procedures, the policy could significantly reduce the number of patients eligible for Medicare coverage of IDPN and other PEN therapies, which would have a material adverse effect on NMC's financial position and results of operations.

NMC - Import Alerts. In 1993, the United States Food and Drug Administration ("FDA") issued import alerts with respect to (a) hemodialysis bloodlines manufactured at NMC's facility in Reynosa, Mexico and (b) hemodialyzers manufactured in NMC's Dublin, Ireland facility. Products subject to FDA import alerts may not enter the United States until the FDA approves the quality assurance systems of the facility at which such products are manufactured. In January 1994, NMC entered into a consent decree providing that the importation of bloodlines and hemodialyzers could resume upon certification by NMC that the relevant facility complies with FDA regulations and successful

completion of an FDA inspection to verify such compliance. The consent decree also required NMC to certify, and be inspected for, compliance with applicable FDA manufacturing requirements at all of its United States manufacturing facilities.

NMC submitted all required certifications for its United States and non-United States facilities in accordance with the timetable specified in the consent decree, and the bloodline import alert was lifted in March 1994. The Dublin hemodialyzer import alert was lifted in December 1995. No fines or penalties have been imposed on NMC as a result of the FDA's actions or in connection with the consent decree.

NMC - Grand Jury Investigations. NMC has received multiple subpoenas from a federal grand jury in the District of New Jersey investigating, among other things, (a) NMC's efforts to persuade the United States Food and Drug Administration to lift a January 1991 import hold issued with respect to NMC's Dublin, Ireland facility, (b) whether NMC sold defective products, (c) the manner in which NMC handled customer

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complaints and (d) the development of a new dialyzer product line. Grace has also received two subpoenas relating to this investigation. NMC and Grace have made extensive document production in response to these subpoenas and have fully cooperated with the grand jury in response to these subpoenas. In February 1996, the United States Attorney for the District of New Jersey notified NMC that it is a target of the New Jersey grand jury investigation, insofar as it relates to possible violations of federal criminal law in connection with efforts to affect the January 1991 import hold referred to above; the material element of the import hold was lifted in 1992.

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In addition, in December 1994, a subsidiary of NMC received a subpoena from a federal grand jury in the Eastern District of Virginia investigating the contractual relationships between subsidiaries of NMC that provide dialysis services and third parties that provide medical directorship and related services to those subsidiaries. NMC has made document production in response to this subpoena.

The outcome of these investigations and their impact, if any, on NMC's business, financial condition and results of operations cannot be predicted at this time.

Shareholder Actions relating to NMC. In 1995, nine purported class action lawsuits were brought against the Company and certain of its officers and directors in various federal courts. These lawsuits are being consolidated in the case entitled Murphy, et al. v. W. R. Grace & Co., et al., which is pending in the United States District Court for the Southern District of New York. The first amended class action complaint in this lawsuit, which purports to be a class action on behalf of all persons and entities who purchased the Company's publicly traded securities during the period from March 13, 1995 through October 17, 1995, generally alleges that the defendants concealed information, and issued misleading public statements and

reports, concerning NMC's financial position and business prospects, a proposed spin-off of NMC and the matters that are the subject of the investigations described above in "NMC - OIG Investigation" and "NMC - Grand Jury Investigations," in violation of federal securities laws. The lawsuit seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In October 1995, a purported derivative lawsuit was filed in the United States District Court for the Southern District of Florida, Northern Division, against the Company, certain of its directors and its former President and Chief Executive Officer, alleging that such individuals breached their fiduciary duties by failing to properly supervise the activities of NMC in the conduct of its business (Bennett v. Bolduc, et al.). In December 1995, the plaintiff in this action filed a new action, based on similar allegations, in the United States District Court for the Southern District of New York (Bennett v. Bolduc, et al.). The Florida action has been dismissed in favor of the action filed in the Southern District of New York. A second action making similar allegations was filed in October 1995 in New York State Supreme Court, New York County (Bauer v. Bolduc, et al.). The Company has been

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advised that this action will be dismissed or stayed in favor of the Bennett action, which has been consolidated, for discovery purposes only, with the Murphy action described above. The com-

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plaint in the Bennett action seeks unspecified damages, attorneys' and experts' fees and costs and such other relief as the Court deems proper.

In February 1996, a purported class action was filed in New York State Supreme Court, New York County, against the Company, certain of its directors and a former director, alleging that the defendants breached their fiduciary duties in connection with the Company's agreement to combine NMC with Fresenius AG's worldwide dialysis business, as described in Item 1 above under "Strategic Restructuring and Other Growth Initiatives" (Rosman v. W. R. Grace & Co., et al.). The lawsuit seeks injunctive relief ordering defendants to carry out their fiduciary duties and preventing or rescinding the transaction or any related transactions with Fresenius AG, unspecified monetary damages, an award of attorneys' and experts' fees and costs and such other relief as the Court may deem just and proper.

See Note 7 to the Consolidated Financial Statements for additional information concerning litigation involving NMC.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

This Item is inapplicable, as no matters were submitted to a vote of the Company's security holders during the fourth quarter of 1995.

immediately if the underlying hedged instrument is settled. Cash flows related to the agreements are classified as operating activities in the Consolidated Statement of Cash Flows, consistent with the interest payments on the underlying debt.

Gains and losses on foreign currency forward and option contracts offset gains and losses resulting from the underlying transactions. Gains and losses on contracts that hedge specific foreign currency commitments are deferred and recorded in net income in the period in which the related transaction is consummated. Gains and losses on contracts that hedge net investments in foreign subsidiaries are recorded in the cumulative translation adjustments account in shareholders' equity.

EARNINGS PER SHARE Primary earnings per share are computed on the basis of the weighted average number of common shares outstanding. Fully diluted earnings per share assume the issuance of common stock equivalents related to employee stock options and, prior to 1994, the conversion of convertible debt (with an increase in net income for the after-tax interest savings).

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2. ASBESTOS AND RELATED INSURANCE LITIGATION

Grace is a defendant in lawsuits relating to previously sold asbestos-containing products and anticipates that it will be named as a defendant in additional asbestos-related lawsuits in the future. Grace was a defendant in approximately 40,800 asbestos-related lawsuits at December 31, 1995 (47 involving claims for property damage and the remainder involving approximately 92,400 claims for personal injury), as compared to approximately 38,700 lawsuits at December 31, 1994 (65 involving claims for property damage and the remainder involving approximately 67,900 claims for personal injury).

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PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek, among other things, to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Through December 31, 1995, 129 asbestos property damage cases were dismissed with respect to Grace without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 10 cases (excluding cases settled following appeals of judgments in favor of Grace and a case in which the plaintiff was granted a new trial on appeal); Grace was held liable for a total of \$74.7 in 7 cases (2 of which are on appeal); and 177 property damage suits and claims were settled for a total of \$421.8.

Included in the asbestos property damage lawsuits pending against Grace and others at year-end 1995 was a class action, conditionally certified by the U.S. Court of Appeals for the Fourth Circuit in 1993 and pending in a U.S. District Court in South Carolina, covering all

public and private colleges and universities in the U.S. whose buildings contain asbestos materials.

In July 1994, a South Carolina state court judge dismissed the claims of most class members from another purported nationwide class action asbestos property damage lawsuit. In his ruling, the judge held that a South Carolina statute prohibits nonresidents from pursuing claims in the South Carolina state courts with respect to buildings located outside the state. The plaintiffs have requested that the court reconsider its decision.

In December 1995, Grace entered into an agreement to settle a Pennsylvania state court action, certified as a class action in 1992, covering all commercial buildings in the U.S. leased in whole or in part to the U.S. government on or after May 30, 1986. The terms of the settlement agreement (which is subject to judicial review and approval after class members have an opportunity to be heard) are not expected to have a significant effect on Grace's consolidated results of operations or financial position.

PERSONAL INJURY LITIGATION

Through December 31, 1995, approximately 10,100 asbestos personal injury lawsuits involving 24,500 claims were dismissed with respect to Grace without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 23,700 such suits involving 29,600 claims were disposed of for a total of \$109.0.

ASBESTOS-RELATED LIABILITY

Subject to the factors discussed below, Grace estimates that its probable liability with respect to the defense and disposition of asbestos property damage and personal injury lawsuits and claims pending at December 31, 1995 and 1994 (and, in the case of the 1995 estimate, personal injury lawsuits and claims expected to be filed

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through 1998), is as follows:

December 31,	1995	1994
Current liability for asbestos-related litigation (1)	\$100.0	\$100.0
Noncurrent liability for asbestos-related litigation	722.3	612.4
Total asbestos-related liability	\$822.3	\$712.4

(1) Included in "Other current liabilities" in the Consolidated Balance Sheet.

In the fourth quarter of 1995, Grace recorded a noncash pretax charge of \$260.0 (\$169.0 after-tax) for asbestos-related liabilities, primarily to reflect the estimated costs to defend against and dispose of personal injury claims expected to be filed through 1998; Grace believes that it now has adequate experience to reasonably estimate the

number of personal injury claims to be filed through 1998 and the costs of defending against and disposing of these claims. Other components of the 1995 provision include increases in the estimated costs of defending against and disposing of certain property damage cases pending at year-end 1995 and personal injury lawsuits and claims filed during 1995.

While personal injury cases and claims are generally similar to each other (differing only in the type of asbestos-related illness allegedly suffered by the plaintiff), Grace's estimated liability for such cases and claims is influenced by numerous variables that are difficult to predict (including the insolvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new cases and claims are filed and the defense and disposition costs associated with these cases and claims). Consequently, actual costs may vary from any estimate. For these reasons, Grace believes that it is not possible to reasonably estimate the number of cases and claims to be filed after 1998 or the costs of defending against and disposing of such cases and claims.

Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure; thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of such cases in the future. In addition, in property damage cases, information regarding product identification on a building-by-building basis (i.e., whether or not Grace products were actually used in the construction of the building), the age, type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide the only meaningful guidance as to potential future costs. However, much of this information is not yet available in some of the property damage cases currently pending against Grace. Accordingly, it is not possible to estimate with precision the costs of defending against and disposing of these cases. Further, Grace believes that the number of property damage cases to be filed in the future and the costs associated with these filings are not estimable.

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ASBESTOS-RELATED INSURANCE RECEIVABLE

Grace's ultimate exposure with respect to its asbestos-related lawsuits and claims will depend on the extent to which its insurance will cover damages for which it may be held liable, amounts paid in settlement and litigation costs. The following table shows Grace's total estimated insurance recoveries in reimbursement for past and estimated future payments to defend against and dispose of asbestos-related litigation and claims:

December 31,	1995	1994
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Notes receivable from insurance carriers -

current, net of discounts of \$4.3 in

1995 (1)	\$ 62.0	\$127.0
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Notes receivable from insurance carriers - noncurrent, net of discounts of \$7.3 in 1995 (2)	56.4	60.0
Asbestos-related insurance receivable	321.2	512.6
	-----	-----
Total amounts due from insurance carriers	\$439.6	\$699.6
	=====	=====

(1) Included in "Notes and accounts receivable, net" in the Consolidated Balance Sheet.

(2) Included in "Other assets" in the Consolidated Balance Sheet.

At December 31, 1995, settlements with certain insurance carriers provided for the future receipt by Grace of \$130.0, which Grace has recorded as notes receivable (both current and noncurrent) of \$118.4, after discounts. In 1995, Grace received a total of \$257.3 pursuant to settlements with insurance carriers in reimbursement for monies previously expended by Grace in connection with asbestos-related litigation; of this amount, \$127.0 was received pursuant to settlements entered into in 1993 and 1994, which had previously been classified as notes receivable.

During 1995, Grace settled with an affiliated group of carriers that had agreed to a settlement in 1993, had made a series of payments under that agreement and had subsequently notified Grace that it would no longer honor the agreement. Pursuant to the 1995 settlement, the group of carriers paid Grace \$44.0 in 1995 and agreed to make additional payments totalling \$60.2 in 1996 and 1997 (which Grace has recorded as notes receivable, after discounts, of \$54.5). Pursuant to a settlement with another group of carriers, Grace received \$26.8 in 1995 and expects to receive an additional payment of \$9.7 in 1996. Under both settlements, Grace will continue to receive payments based on future cash outflows for asbestos-related litigation and claims; such payments are estimated to represent approximately \$237.3 of the asbestos-related receivable of \$321.2 at December 31, 1995.

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As a result of these settlements and a reassessment of its insurance receivable, Grace recorded a noncash net pretax charge of \$15.0 (\$9.7 after-tax) during the fourth quarter of 1995 to reflect a reduction in the receivable, primarily due to lower than anticipated settlements with insurance carriers and a discount on notes receivable in connection with prior settlements, partially offset by an increase in expected future reimbursements of costs to defend against and dispose of property damage cases pending at year-end 1995 and personal injury claims to be filed through 1998.

INSURANCE LITIGATION

Grace continues to seek to recover from its excess insurers the balance of the payments it has made with respect to asbestos-related litigation. As part of this effort, Grace continues to be involved in litigation with certain of its insurance carriers (having previously settled with certain primary and excess carriers, as discussed above) For the period October 1962 through June 1985 --the most relevant period for asbestos-related litigation --Grace purchased, on an annual basis, as much as eight levels of excess insurance coverage. (In general, excess policies provide that when claims paid exhaust coverage at one level, the insured may seek payment from the carriers at the next higher level.) For that 23-year period, the first six levels of excess insurance available from the insurance companies that Grace believes to be solvent (based primarily upon reports from a leading independent insurance rating service) provide nominal coverage of approximately \$1,200.0 (including the amounts reflected in the receivable discussed above). However, (a) a portion of the personal injury lawsuits and claims pending at year-end 1995 and expected to be filed against Grace through 1998 will likely relate to periods for which no excess coverage is available; and (b) even where such excess coverage is available, the number of personal injury lawsuits and claims expected to be filed against Grace in the future is not expected to be sufficient to result in significant payments under such coverage. Further, as a result of the May 1994 decision of the U.S. Court of Appeals for the Second Circuit, discussed below, a significant portion of the nominal excess coverage is not available in connection with property damage lawsuits. In addition, \$142.0 of the \$1,200.0 relates to excess coverage written by a group of insurance carriers that, while currently solvent, has experienced financial difficulties in recent years. This group of carriers settled with Grace in 1995 (as discussed above). The asbestos-related receivable of \$321.2 at December 31, 1995 includes \$54.7 to be paid by this group; management believes this amount is fully collectible.

As previously reported, in September 1993 the U.S. Court of Appeals for the Second Circuit ruled that, under New York law (which governs a significant portion of the policies that provide Grace's asbestos-related insurance coverage), such coverage is triggered based on the date of installation of asbestos-containing materials. As a result of this decision (which had the effect of reducing the amount of insurance coverage available to Grace with respect to asbestos property damage litigation and claims), Grace recorded a noncash pretax charge of \$475.0 (\$300.0 after-tax) in the 1993 third quarter. Grace reversed

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\$316.0 (\$200.0 after-tax) of the pretax charge in the 1993 fourth quarter after the court withdrew its September 1993 decision and agreed to rehear the case, but reinstated the \$316.0 pretax charge (\$200.0 after-tax) in the second quarter of 1994, when the court issued a new decision confirming its September 1993 decision. Because Grace's insurance covers both property damage and personal injury lawsuits and claims, the May 1994 decision has had the concomitant effect of reducing the insurance coverage available with respect to Grace's asbestos personal injury lawsuits and claims. However, in Grace's opinion, it is probable that recoveries from its insurance carriers (including amounts reflected in the receivable discussed above), along

with other funds, will be available to satisfy the personal injury and property damage lawsuits and claims pending at December 31, 1995, as well as personal injury lawsuits and claims expected to be filed through 1998. Consequently, Grace believes that the resolution of its asbestos-related litigation will not have a material adverse effect on its consolidated results of operations or financial position.

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3. ACQUISITIONS AND DIVESTMENTS

ACQUISITIONS

During 1995, Grace made acquisitions totalling \$260.8 (inclusive of cash acquired and debt assumed), all of which involved cash purchases of kidney dialysis centers and medical imaging facilities by National Medical Care, Inc. (NMC), Grace's principal health care subsidiary. Acquisitions in the first quarter of 1995, prior to the classification of NMC as a discontinued operation (see Note 7), totalled \$41.1 (inclusive of cash acquired and debt assumed). Acquisitions by NMC subsequent to the first quarter of 1995 are presented as an investing activity and are included in "Increase in net assets of discontinued operations" in the Consolidated Statement of Cash Flows.

In 1994, Grace made acquisitions totalling \$351.7 (inclusive of cash acquired and debt assumed), primarily in health care. Grace acquired Home Nutritional Services, Inc. for approximately \$131.8 (inclusive of cash and assumed debt totalling \$30.4) and acquired kidney dialysis centers and other health care businesses during 1994 for an aggregate of approximately \$145.3 in cash. 1994 acquisitions also included construction chemicals businesses and a European flexible packaging business.

In 1993, Grace acquired Home Intensive Care, Inc. for approximately \$129.0 in cash and acquired other health care businesses for an aggregate of \$115.0 in cash and \$3.8 in common stock. Additionally, during 1993 Grace acquired Latin America's largest water treatment business for approximately \$57.6 in cash.

DIVESTMENTS

During 1995, Grace realized gross proceeds of \$58.8 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. The operations

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divested in 1995 consisted of three small units of Grace's construction products business, the composite materials business (previously classified as a discontinued operation), Grace's transportation services business and various investments.

In 1994, Grace realized gross proceeds of \$646.2 (inclusive of debt assumed by the buyers) from divestments, including payments received in connection with divestments completed in prior years. Substantially all of the businesses divested during 1994 had previously been